

CITY OF LYNCHBURG, VIRGINIA



Comprehensive Annual Financial Report
For the fiscal year ended June 30, 2004

COMPREHENSIVE ANNUAL FINANCIAL REPORT

FISCAL YEAR ENDED JUNE 30, 2004

**CITY OF LYNCHBURG,
VIRGINIA**

Prepared by:
Financial Services

CITY OF LYNCHBURG, VIRGINIA

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INTRODUCTORY SECTION



FINANCIAL SERVICES DEPARTMENT

September 30, 2004

The Honorable Mayor and Members of the City Council
City of Lynchburg, Virginia

The Comprehensive Annual Financial Report (CAFR) for the City of Lynchburg, Virginia, (City) for the year ended June 30, 2004, is hereby submitted in accordance with the *City Code* and state statutes. Responsibility for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with the City. To the best of our knowledge and belief, the enclosed data is accurate in all material respects and is reported in a manner designed to present fairly the financial position, results of operations, and cash flows, as applicable, of the various funds and component units of the City. All disclosures necessary to enable the reader to gain an understanding of the City's financial activities have been included.

The CAFR is presented in four sections: Introductory, Financial, Statistical, and Compliance. The Introductory Section, which is unaudited, includes this Letter of Transmittal, the City's organization chart, and a list of principal officials. The Financial Section includes: Management's Discussion and Analysis (MD&A); basic financial statements consisting of government-wide and fund financial statements; and, the combining and individual fund financial statements and schedules. The Statistical Section, which is unaudited, includes selected financial and demographic information generally presented on a multi-year basis. The Compliance Section includes the auditor's reports on grant compliance and testing of internal controls in conformity with Generally Accepted Auditing Standards; *Government Auditing Standards*, issued by the Comptroller General of the United States, U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and requirements of the Auditor of Public Accounts of the Commonwealth of Virginia.

The financial reporting entity includes all funds of the primary government (i.e., the City of Lynchburg), as well as all of its component units. Component units are legally separate entities for which the primary government is financially accountable. The City provides a full range of municipal services including general administration, judicial functions, police and fire protection, parks and recreation, libraries, museums, health, juvenile and social services, maintenance of streets and highways, economic development, and community planning. The City also owns and operates water and sewer systems, a municipal landfill, and a regional airport. The City's discretely presented component units, Lynchburg City Schools (Schools), Business Development Centre, Inc., and Greater Lynchburg Transit Company, provide public education, various small business services, and public transportation, respectively, to the citizens of the City. These component units are included in separate columns in the City's government-wide financial statements to emphasize that they are legally separate from the City and to differentiate their financial position and results of operations from that of the City. Each of these component units' governing bodies is appointed by City Council. Excluded are the financial statements of the Lynchburg Redevelopment and Housing Authority and the Industrial Development Authority of the City of Lynchburg. These organizations are associated with the City, but are legally separate entities, which operate with considerable autonomy outside the direct control of City Council and for which the City is not financially accountable. Also, excluded are the financial statements of the Blue Ridge Regional Jail Authority and the Central Virginia Community Services Board, which are jointly governed organizations. Additional information regarding the City's financial status can be found in the MD&A section of this Report.



Local Economic Condition and Outlook

Approximately 120 miles west of the state capital, Richmond, and midway between the cities of New York and Atlanta, Lynchburg is an important commercial center for a four-county region. The City benefits from an economy that has been relatively stable and remains diversified among the manufacturing, service, technology, and trade sectors.

City Council and City management have an aggressive economic development program that is committed to creating jobs for area citizens and generating new sources of tax revenue by strengthening and diversifying the local economy through the attraction of new businesses and the retention and expansion of existing businesses. This commitment, the strategic location of the City, a strong workforce, a moderate climate, and desirable available real property make Lynchburg an attractive location for an ever-increasing mix of business.

The City, through its Industrial Development Authority (IDA), has a program of local economic development incentives designed to enhance the City's competitiveness for new industry and business and to support the expansion of existing basic employers. The performance-based incentives provide for, but are not limited to, consideration of site cost reduction, site preparation costs, cash grants/investments, and the potential for water, sewer, and solid waste contracts for large volume users. New and existing businesses must satisfy certain criteria for amounts of incremental investment and/or increased full-time job equivalents to be entitled to locally funded incentives. The program is designed also to provide matching funds to state incentives. Since inception of the program in 1994 and through June 30, 2004, a total of \$11,393,112 in local economic development incentives has been awarded. The City also owns and manages two industrial parks. The Lynchburg Center for Industry is approximately 92% occupied with 170 total acres, 13 acres remaining for development and the Lynchpin Industrial Center is approximately 39% occupied with 649 total acres, 396 acres remaining for development. The City, in partnership with Campbell County, is developing an Airport Commerce Park with 252 total acres adjacent to Lynchburg Regional Airport.

The City also provides support to the Business Development Centre, Inc., which was established to help small start-up businesses with one-stop support services. The Centre provides counseling, advising and training services as well as office or industrial space at the facility. Additionally, there are loan programs administered by the Centre that are available to finance eligible small businesses.

The City understands the importance of creating an environment that is business friendly and is working hard to improve services to the business community in new and innovative ways. In March 2002, Lynchburg City Council approved a Technology Zone Ordinance. The Commonwealth of Virginia allows cities, counties, and towns to establish, by ordinance, one or more technology zones to attract growth in targeted industries. Qualified businesses locating or expanding in such a zone may receive waivers of local permit and user fees, local tax incentives, and capital investment grants. Incentives may be provided for up to ten years. The City established two technology zones, Downtown and in the Lynchpin Industrial Center. The City continues to market new businesses, particularly downtown and in the industrial parks, which are designated as both Enterprise Zones and Technology Zones. Numerous business owners have taken advantage of the benefits of these zones, some of whom indicated that they would not have located in Lynchburg if not for these zones.

Retail development continues to expand in the Route 29 (Wards Road) corridor, which remains the retail regional hub serving Lynchburg and the four surrounding counties. Target, Best Buy, Wal-Mart, and Sam's Club are the anchor stores in the corridor, driving the addition of approximately five new retailers annually including national chain stores and restaurants. Plans have been announced for a new Home Depot on the western edge of the City.

In recognition of the shared commitment and belief that economic growth in any of the region's communities benefits the entire region, business, government, and community leaders of the City and surrounding jurisdictions continue to participate in regional economic development activities. During FY 2003, in an effort to reduce redundancy and present a more united front, two regional groups, Virginia's Region 2000 and the Region 2000 Partnership, were merged into a single entity, the Region 2000 Economic Development Partnership, which will receive administrative support from the Region 2000 Regional Commission. The region's Workforce Investment Board (WIB), which focuses on skills training and workforce development, operates under a similar arrangement bringing all regional economic development activities under one umbrella organization. Supported through voluntary contributions from participating businesses, organizations, and jurisdictions that contribute on a per capita basis, the Region 2000 Economic Development Partnership will continue to combine public and private sector interests to support an ongoing local, state, national, and international economic development program in central Virginia.

The City experienced limited growth in the industrial, commercial, technology, and retail sectors during FY 2004. The Office of Economic Development assisted with a total private investment of \$26.6 million involving the creation of 861 new jobs; incentives to these projects totaled \$885,320. Following is a summary of major economic additions and expansions:

- Milwaukee Iron, Inc., a manufacturer of customized and design build motorcycles, purchased a building in the Lynchpin Industrial Center and, combined with related equipment, invested \$1.4 million and created 13 new jobs.
- R. R. Donnelley and Sons Co., a major printing company, announced a \$5 million expansion of its facility in the First Lynchburg Industrial Park and the creation of 50 new jobs.
- StarTek announced the selection of Lynchburg for a new in-bound call center facility, utilizing a former retail site at the Plaza Shopping Center, with an investment of \$5.5 million and the creation of 542 new jobs. The State, City, IDA and WIB contributed incentives to the project.
- Framatome/Areva (advanced nuclear power services) announced a \$7 million expansion.
- Truck Enterprises, Inc. (sales and service for major trucks) selected Lynchburg for its new facility investing \$5 million and creating 50 new jobs.
- Microwave Circuits, a designer and producer of high performance and microwave communication filters, announced the selection of Lynchburg to expand its operations. The company will renovate an existing building with an investment of \$1.45 million and the creation of 200 new jobs. Lynchburg was selected due to the technical skill of the former Ericsson workforce.
- Billy Craft Honda announced its construction of a new Parts and Service Center for an investment of \$1.3 million and 6 additional jobs.

The economic downturn has had an impact upon the economy. Due to a corporate decision to move operations out of the United States, Ericsson, Inc. completed its withdrawal from Lynchburg by the end of December, 2003.

Major Initiatives and Accomplishments

Comprehensive Plan

In September 2002, City Council approved a new Comprehensive Plan. Virginia law requires that each city, town, and county have a Comprehensive Plan and that it be reviewed at least every five years. As adopted, the Plan provides the City with a framework for consistent decision-making in the areas of land use, public facilities and utilities, resource protection, housing, transportation, economic development, and capital improvements. The City's Planning Commission is responsible for implementing the Plan and City Council is the adopting authority. The vision, goals, and objectives included in the Plan are being used to guide the implementation of the Plan, beginning with strategies included in the five-year Implementation Program. This Program includes revisions to the City's zoning ordinance and subdivision ordinance. At the same time, neighborhood conservation plans, a transportation master plan, corridor studies, resource conservation plans, and revitalization area plans are being prepared and adopted as part of the Comprehensive Plan. City Council adopted the Tyreanna/Pleasant Valley Neighborhood Plan, which is one of the first projects to be completed under the new Plan. Portions of the City's Zoning Ordinance have been revised and work is underway on preparation of a plan for the Fifth Street corridor and Midtown Area. The City has worked on the development of a regional greenways and blueways plan that will incorporate the City's greenways into the regional system.

Downtown and Riverfront Development/Redevelopment

The City continued into its fourth year of implementing elements of the Downtown/Riverfront Master Plan adopted in March 2001. Sasaki & Associates and Economics Research Associates developed the twenty-year plan encompassing a sixty-block area. Implementation continues to focus on four areas: infrastructure/public space improvements, culture and entertainment, commercial development, and government projects.

Phase One of the infrastructure improvements was substantially completed during FY 2004 and included streetscape improvements for the Ninth Street Corridor (the major north-south avenue through downtown) and adjoining side streets. The improvements consisted of new stone and brick sidewalks, street trees, historic lampposts, benches, and other amenities. The Ninth Street corridor improvements also included a major Combined Sewer Overflow (CSO) project. Four blocks and the famous Monument Terrace grand stairway were substantially completed during FY 2004. Phase One of the Riverfront public space improvements is complete and includes initial components of the Riverfront Park. These improvements include the transformation of a former railroad yard to a large lawn for festivals and light sports, complimented by street trees, and the Jefferson Street promenade. The goal of the infrastructure/public space improvements is to attract more activity and private development in the downtown area. The public investment for the projects totals nearly \$6 million. Phase Two of the Riverfront public space improvements begins in early 2005 with completion expected within one year.

The first cultural project to open downtown was the Amazement Square Children's Museum in March 2001. The museum has attracted nearly 100,000 visitors annually, well above projections of only 30,000 visitors per year. The museum

continues to be a popular destination for families throughout the Commonwealth and has boosted sales at local shops, restaurants, and hotels. A second cultural project that opened two years ago is the Renaissance Theater. The repertory theater continues to host sell-out crowds for a variety of dramas and musicals. The third cultural project to open recently in downtown is the Dance Theatre of Lynchburg. The studio offers a variety of dance classes for all ages and levels, and holds performances throughout the year, providing community youth the opportunity to gain first hand performing arts experience. A fourth cultural project is Riverviews Artspace, a combination of an artist center (galleries and studios), retail space (café, antique stores and art supply store), and housing (36 loft apartments). The project was completed in October 2003, is fully rented, and is the first major market rate housing project in the downtown in over thirty years. Housing is a critical component of the Master Plan given that downtown residents add twenty-four hour a day/seven day a week life to the streets and increase demand for retail and entertainment. A fifth cultural project is the Academy of Fine Arts. Phase One of the Academy is scheduled to opened in December 2004. This \$5 million project includes a new 500-seat studio theater, classrooms, offices, and galleries to serve the cultural arts for Lynchburg, the surrounding region, and the Commonwealth. Phase Two, which includes restoration of the historic Academy of Music Theater (c. 1905) is expected to begin in the next year pending fund raising results. The theater will seat 900 guests and is estimated to cost \$15-20 million. The recent merger of the two largest arts and cultural organizations in the City, the Fine Arts Center and the Academy of Music, into the Academy of Fine Arts helped expedite the completion and opening of Phase One and will promote the fundraising efforts for Phase Two. The Academy of Fine Arts is a key component of Downtown revitalization efforts.

Private developments include new and expanded restaurants, stores, and offices. In addition, a new lodging, dining and meeting facility, the BluffWalk Center, began construction in 2003. It will include a boutique hotel with forty guestrooms, a conference center, a high-end restaurant, and a microbrewery in two renovated former shoe factory buildings. Completion is expected by the end of calendar 2005. Several new loft apartment housing projects are expected to begin construction in early 2005. One project will include thirty units and another will include sixty-seven units plus retail. The latter is located adjacent to the City's Community Market, which will further enhance the historic market and add more "critical mass" in specialized retail for downtown (i.e., crafts and antiques).

Also located downtown, the \$2 million restoration of the City's Old Courthouse Museum is underway and scheduled for completion in early 2005. This project is being managed through a limited partnership to allow the use of historic tax credits to offset a portion of the cost. A new \$14 million federal courthouse and post office are under construction and expected to be completed in 2005. The complex will employ 75 to 100 people in the post office, the courts, and other federal departments such as the U.S. Marshall Service, the Federal Bureau of Investigations (FBI), and the Internal Revenue Service (IRS).

Combined Sewer Overflow (CSO)

In August 1994 the Virginia Department of Environmental Quality (DEQ) issued the City a discharge permit and a special consent order which established a compliance schedule and project priorities for implementation of a CSO Control Plan. The compliance schedule does not contain fixed dates for implementing the CSO Control Plan, but rather provides for implementation that reflects the City's financial capability. Since July 1, 1993, through June 30, 2004, the City has appropriated over \$103 million for CSO control and abatement projects. This funding has resulted in the closing of 96 of the 132 CSO outfalls with a 77% reduction of CSO volume. During FY 2004, capital expenditures for CSO were approximately \$8.1 million and 5 additional CSO outfalls were eliminated.

In FY 2003, the City received federal and state grants totaling approximately \$3.2 million to supplement the existing CSO Program. The City's CSO Control Plan was updated in 2000 and sewer separation continues to be the long-term approach to the City's CSO concerns. The total estimated cost of the CSO Control Plan in 1999 dollars was \$276 million with \$199 million in direct CSO abatement costs. In conjunction with the CSO abatement program, projects that are optional include costs of \$25 million for replacement of water system infrastructure and \$52 million for street and road improvements in those areas of the City where CSO projects are being undertaken. The City faces continued challenges in its sewer operations. With the downturn in the economy and consumption reductions by large industrial customers, added financial burdens are placed on the Sewer Fund. During FY 2004, the City, working with the Virginia Resources Authority, restructured its zero percent Virginia Revolving Loan Fund from a twenty to a thirty year amortization. This restructuring provided relief to the Sewer Fund and reduced the potential for large rate increases on residential and commercial customers. In addition, progress in CSO abatement is further challenged by the loss of state support that had previously been used to match federal grants. This has placed future federal grants in jeopardy as well.

Education

Educational achievements include State of Virginia Department of Education notification that twelve of the sixteen public schools were fully accredited and four provisionally accredited. Seven of the eleven elementary schools met the 100% Adequate Yearly Progress (AYP) requirements for school accountability under the No Child Left Behind Act of 2001. Students in the graduating class of 2004 exceeded both the state and national average on the Scholastic Aptitude Tests (SATs). Nearly fifty percent (50%) of the 2004 graduating class earned the state advanced diploma, the criteria for which are set by the Virginia Department of Education. Unofficial results from the Standards of Learning (SOL) test administered in the spring 2004 indicate that fifteen of sixteen schools will be fully accredited.

Infrastructure

In addition to the infrastructure projects outlined in the Downtown and Riverfront Development/Redevelopment section of this Letter, the City continues to focus on major infrastructure projects that are identified in the following summary.

The renovation and expansion of the City's oldest high school, E. C. Glass, began during the summer of 2003. Fourteen science classrooms and an auxiliary gym were added during FY 2004. An extensive renovation of the existing building includes electrical and plumbing upgrades, new HVAC systems, new windows, installation of elevators, and classroom renovations. A limited partnership has been formed to utilize state historic tax credits as part of an overall \$28.7 million financing plan. Construction is expected to be complete by April 2006.

Reconstruction work, at a cost of approximately \$7 million, was completed at the City Stadium to enhance the baseball facility as a local entertainment and tourism destination, and home to the Lynchburg Hillcats, a Class A affiliate of the Pittsburgh Pirates. A Stadium Enterprise Fund was established so that revenues from the Stadium will be dedicated to fund debt service and operating expenditures.

Information Technology

The City continued to leverage information technologies to improve services and operating efficiencies and to reduce costs. An integrated system was implemented for the building permitting, building inspections, code enforcement, community planning, and business licensing functions. This system provides automated tools to manage building-related requests, schedule staff workloads, and monitor community planning activities. Also, the City's telephone and voice mail systems were replaced with a Voice-Over-Internet Protocol system, resulting in an annual savings of telephone-related expense of about \$40,000.

The Information Technology Strategic Plan for the City was revised and expanded, covering seven focus areas to drive greater integration of the City's systems and data. This plan outlines strategies and actions that will guide the advancement of information technologies in the City for the next several years.

Public Safety

The Healthy Neighborhood Initiative (HNI) is an example of citizens and government working together to solve community issues. HNI's mission is to cultivate and preserve healthy, safe, and vibrant neighborhoods by bringing people and resources together to enhance the quality of life and services provided to City neighborhoods. HNI is a City-wide comprehensive collaborative networking approach to revitalizing and making neighborhoods safe places to live, learn, work, and play. HNI is comprised of local partnerships with businesses, citizens, civic groups, faith based ministries, government, nonprofit agencies, and neighborhood associations whose unified purpose is to build "community" at the neighborhood level and to improve the quality of life for citizens, families, and youth through promoting and providing an array of services that address the physical, social, and economic health of City neighborhoods. Efforts continue from the fall 2002 Mayor's Safe Neighborhoods Summit which provided a forum for citizens to communicate concerns regarding safe neighborhoods which were later developed by the Mayor's Safe Neighborhoods Steering Committee into eight major vision points. These points are: (1) Youth Development, (2) Social Intervention, (3) Parenting and Family Enrichment, (4) Neighborhood Building/Economic Development, (5) Communications and Technology, (6) Public Safety, (7) Faith-Based Partnerships, and (8) Transportation. Since the forum successes include partnering with Lynchburg College to develop a youth gang research and outreach agenda; partnering with the Alliance for Families and Children agency which sponsored a three day Youth Connection Conference at the middle school focused on drug prevention and neighborhood safety; and, sponsoring an "And-I Celebrity Street Basketball" game where Lynchburg neighborhood superstars successfully competed against New York elite basketball stars with over 2,000 in attendance.

Public Works

On October 1, 2003, a new semi-automated residential refuse collection system was implemented. A report to Council in June 2004 on the first six months of performance indicated the new system was validating the initial justifications for implementing the new system. In another initiative, asphalt paving was removed from Jefferson Street and the original Belgium Blocks and granite pavers were cleaned, replaced, and left exposed. In a similar project, a grant was awarded to the City to support a \$500,000, multi-year historical preservation initiative in the Daniels' Hill area to remove asphalt paving, to restore the original stone curbs and brick pavers, and to replace the street lighting fixtures with new units of an historical design with up-to-date illumination capability.

Aviation

Lynchburg Regional Airport is owned and operated by the City of Lynchburg and is a full service airport offering an array of aeronautical services including aircraft charter, maintenance and avionics, fuel services, flight training, State Police med flight services, and aircraft storage. In addition, the airport serves as the primary commercial service airport for all of Central Virginia with a service area population of more than 220,000. Offering a total of 11 scheduled airline departures daily, the airport will serve approximately 130,000 passengers in 2004 through the regional affiliates of two major airlines: Delta, and US Airways.

The City has made significant improvements over the past several years to meet both commercial and general aviation needs, including a full rehabilitation of both runways, acquiring new snow removal equipment, constructing a new airfield maintenance facility, a new rental car service facility, a new state police medical evacuation facility, and a new General Aviation terminal. The airport has an additional \$16.7 million in proposed projects in its five-year capital plan which includes a 1,300 ft. extension project to the airport's primary runway. These projects will be funded primarily by a combination of federal and state aviation funds, as well as Passenger Facility Charges (PFCs).

May 2004 marked the one-year anniversary of the return of jet service to Lynchburg. This service improvement was made possible by a \$500,000 Small Community Air Service Development grant from the U.S. Department of Transportation, and Lynchburg Regional Airport was one of only 40 airports nationwide to be awarded a grant. Yearly month-to-month comparisons of Delta Connection's new regional jet service continue to show impressive results, with the month of June 2004 alone showing more than a 43% increase in passengers over June 2003. Delta officials recently announced that the jet service had "exceeded expectations" and that the jet service would continue after the expiration of the revenue-guarantee period.

Partly in response to the success of the new Delta jet service, the airport has also seen the upgrading of all of its US Airways Express service to Charlotte to the much larger Dash 8 aircraft, resulting in an increase of some 60 percent in total US Airways seat capacity in the Lynchburg market. This brings total airport seat capacity that is within 9 percent of the total available prior to September 11, 2001, and a 36 percent improvement over the airport's lowest level in January 2002. This additional traffic and aggressive cost containment has made it possible for the airport to significantly reduce the annual operating subsidy received from the City over the last two fiscal years.

Administrative Systems' Initiatives

In conjunction with the Chart of Accounts initiative, a project/grant accounting module of the financial system software was implemented for general government capital projects. When fully implemented, the project/grant accounting module will provide the City with enhanced monitoring and reporting of expenditures and revenues for capital projects and grants on a life-to-date and fiscal year basis. The addition of enterprise funds capital projects is planned for FY 2006 as a continued expansion of the project/grant accounting module.

Prospects for the Future

The City of Lynchburg is guided by a vision that addresses the challenges of an urban central city and builds on the strengths inherent in the City and the region. Council's Vision, adopted in 2000 and reviewed and reaffirmed by City Council annually, calls for "a community environment second to none" characterized by stable, productive, inspired families, a superior education system, dynamic economic development, and responsive, effective local government.

Through sound fiscal management and making difficult choices, the City has weathered the national recession and made progress in fulfilling Council's vision. While there are many challenges ahead, such as the continuing fiscal challenges inherent in older core cities, there is a high degree of confidence that the City will overcome such challenges and continue to

make improvements that benefit all of its citizens. Using guidance provided by Council, City staff is developing specific objectives toward achievement of the vision.

On the state level, the City will remain active in the Virginia First Cities Coalition pushing for a statewide urban policy, tax reform, adequate funding for education, and other shared responsibilities. Internally, efforts will continue to identify improvements in technology, processes, and employee training and development that will help the City to maintain excellent core services while addressing new opportunities in a fiscally responsible manner.

Considerable capital investment will occur in several areas. First of all, the City's commitment to the Schools' facilities will continue to require significant resources. Renovations to E. C. Glass High School will continue into 2006 while smaller, but also important, improvements will be made to other Schools facilities. Investment in downtown will continue beyond the completion of improvements in the Ninth Street Corridor with the goal of attracting significant private investment strengthening the City's tax base and creating dynamic and vibrant communities in the inner City. There is a growing feeling that downtown redevelopment is reaching the critical mass of residential, business, and institutional activities necessary for it to become self-sustaining for the long term. Finally, future capital investment will occur in the CSO program and in the maintenance of the City's streets, bridges, and sidewalks.

Economic development activities will focus on promoting the City as a good place to live and work within Region 2000. Marketing efforts will target prospects for both downtown and the City's public and private industrial parks. Recognizing that economic development anywhere in the region provides benefits to Lynchburg, the City also will support marketing efforts in neighboring jurisdictions. The City will continue working to accommodate appropriate commercial development to serve the region with shopping and dining opportunities. Lynchburg Regional Airport will remain an important transportation link for the area with a longer runway for expanded service.

An important focus in the coming years will be efforts to promote vibrant and sustainable neighborhoods throughout the City. Building on the Healthy Neighborhoods Initiative, community based programs will combine and coordinate existing resources in a manner designed to strengthen individuals and families.

While the challenges are many for the City, so are the opportunities for success. The City will continue to take the steps necessary to become the progressive community outlined in Council's Vision.

Accounting System and Budgetary Controls

The City's accounting records for governmental fund type operations are maintained on a modified accrual basis with revenues being recorded when available and measurable, and expenditures being recorded when services or goods are received and the liabilities are incurred. Accounting records for the City's proprietary fund types are maintained on the accrual basis.

In developing and refining the City's accounting system, consideration is given to the adequacy of internal accounting controls. Internal accounting controls are designed to provide reasonable, but not absolute, assurance regarding: (a) the safeguarding of assets against loss from unauthorized use or disposition; and (b) the reliability of financial records for preparing financial statements and maintaining accountability for assets. The concept of reasonable assurance recognizes that: (a) the cost of a control should not exceed the benefits likely to be derived; and (b) the evaluation of costs and benefits requires estimates and judgments by management. All internal control evaluations occur within the above framework. The City's internal accounting controls adequately safeguard assets and provide reasonable assurance of proper recording of financial transactions.

City Council has approved financial policies to guide fiscal decision-making and to ensure continued strong financial health. In 1999, Debt Management and, Fund Balance, policies were adopted. In 2000, a Budget Policy was adopted by City Council. In 2001, City Council adopted an Investment Policy. Financial policies for risk management and grants are being developed for future consideration by City Council.

As required by law, each year, at least 60 days prior to June 30, the City Manager submits to City Council a recommended budget for the fiscal year beginning July 1. After an extensive budget preparation and review process, and a public hearing to receive citizen input, City Council adopts the annual budget. The budget must be adopted on or before May 15.

Risk Management

The City's Self-Insurance Plan and Risk Management Program combine self-insurance and third-party insurance coverage. The City is self-insured for workers' compensation, general liability, and automobile liability claims with insurance

coverage for excess claims. The City also provides healthcare coverage through a professionally administered self-insurance program. The City has extended coverage for environmental issues and for the Lynchburg Regional Airport. Additionally, the City continues to expand its employee health and wellness program and employs an Occupational Health Nurse. Note 16 to the financial statements provides an outline of the City's Risk Management Program and related coverage.

Cash Management

The City uses a pooled cash concept to allow greater investment flexibility and consequently a better return on investments. All of the available City and Schools' cash, except for cash managed by fiscal agents, is pooled for investment purposes with maturities planned to coincide with cash needs. Cash temporarily idle during the year is invested in accordance with the Council-adopted Investment Policy. In September 2001, the City contracted with a private investment firm to assist in evaluating various investment alternatives to increase investment income. The Investment Policy's objectives are to ensure safety for the investment portfolio's principal, provide sufficient availability of funds to meet cash requirements, and maximize the investment rate of return on permitted investments in accordance with federal, state and local laws, and other regulations governing the investment of public funds.

Independent Audit

State law and *City Code* require that the financial statements of the City be audited by an independent certified public accountant selected by City Council. Brown, Edwards & Company, L.L.P. has performed an audit of the Comprehensive Annual Financial Report. The independent auditor's report, which includes their opinion on the basic financial statements consisting of the government-wide and fund financial statements, is contained in the Financial Section of this Report. Brown, Edwards & Company, L.L.P. also audited the component unit financial statements of Greater Lynchburg Transit Company, Business Development Centre, Inc., and Lynchburg City Schools.

Certificates of Achievement for Excellence

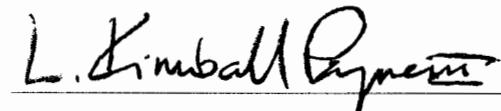
The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Lynchburg for its Comprehensive Annual Financial Report for the fiscal year ended June 30, 2003. This was the eighth consecutive year that the City has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized Comprehensive Annual Financial Report. The report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current Comprehensive Annual Financial Report continues to meet the Certificate of Achievement Program requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

Acknowledgments

The preparation of the Comprehensive Annual Financial Report was made possible by the dedicated service of the staff of the Financial Services Department. Each member of the department has our appreciation for the contributions made by them in the preparation of this Report. Appreciation is expressed also to City Council for their interest and support in planning and conducting the financial operations of the City in a responsible and progressive manner.

Respectfully submitted,



L. Kimball Payne, III
City Manager



Michael W. Hill
Director of Financial Services

CITY OF LYNCHBURG, VIRGINIA
COUNCIL-MANAGER FORM OF GOVERNMENT

DIRECTORY OF PRINCIPAL OFFICIALS

June 30, 2004

CITY COUNCIL

Carl B. Hutcherson, Jr., Mayor

Bert Dodson, Jr., Vice Mayor
Robert E. Garber
Julian R. Adams

Edward M. Barksdale, Sr.
Joseph M. Seiffert
Joan Foster

SCHOOL BOARD

Lyle E. Schweitzer, Chairman

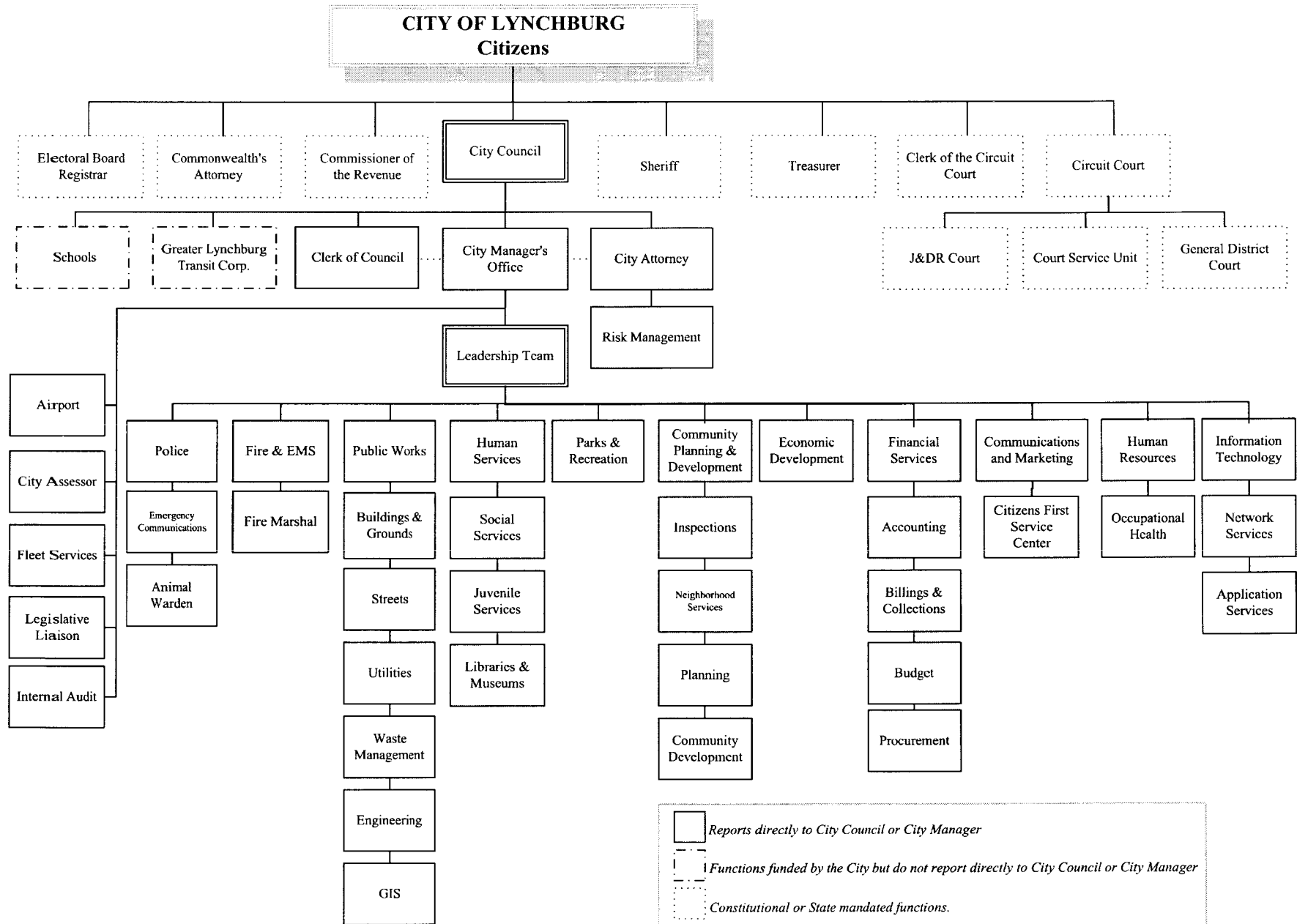
James T. Ballengee
Julie P. Doyle
Leslie J. Faircloth
Ellis M. Frankfort

Charles C. Hooks, Jr.
Harry Smith, Jr.
Jean Smith-Turner
Sterling A. Wilder

OFFICIALS

L. Kimball Payne, III
Bonnie Svrcek
Walter C. Erwin
Michael W. Hill
David C. Thurman
Mitchell W. Nuckles
Dr. James T. McCormick

City Manager
Deputy City Manager
City Attorney
Director of Financial Services
Treasurer
Commissioner of the Revenue
Superintendent of Schools



Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Lynchburg,
Virginia

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2003

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



A handwritten signature in black ink, appearing to read "Edward Haney".

President

A handwritten signature in black ink, appearing to read "Jeffrey R. Enen".

Executive Director

FINANCIAL SECTION

INDEPENDENT AUDITOR'S REPORT

To the Members of the City Council and the City Manager
City of Lynchburg, Virginia

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Lynchburg, Virginia, as of and for the year ended June 30, 2004, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of the discretely presented component units referred to as the Business Development Centre, Inc. and the Greater Lynchburg Transit Company, whose statements reflect total assets of \$1,218,872 and \$4,758,022, respectively, as of June 30, 2004, and total revenues of \$450,229 and \$3,595,084, respectively, for the year then ended. Those financial statements were audited by other auditors whose reports have been furnished to us; and our opinion, insofar as it relates to the amounts included for these discretely presented component units referred to as the Business Development Centre, Inc. and the Greater Lynchburg Transit Company, is based on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and *Specifications for Audits of Counties, Cities, and Towns*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of other auditors provides a reasonable basis for our opinions.

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City, as of June 30, 2004, and the respective changes in financial position and cash flows, where applicable, thereof and the budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 30, 2004, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and the required supplementary information on page 3 and page 48 are not a required part of the basic financial statements but are supplementary information required by the *Governmental Accounting Standards Board*. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The introductory section, combining and individual non-major fund statements and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements of the City. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements of the City. In addition, the accompanying schedules of passenger facility charges and of expenditures of passenger facility charges are presented for purposes of additional analysis as specified in the *Passenger Facility Charge Audit Guide for Public Agencies*, issued by the Federal Aviation Administration, and is not a required part of the basic financial statements. The combining and individual non-major fund financial statements, the schedule of expenditures of federal awards, and the schedule of expenditures of passenger facility charges have been subjected to the auditing procedures applied by us and the other auditors in the audit of the basic financial statements and in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we express no opinion on them.

Brown, Edwards & Company, L.L.P.

CERTIFIED PUBLIC ACCOUNTANTS

Roanoke, Virginia
September 30, 2004

CITY OF LYNCHBURG, VIRGINIA

Management's Discussion and Analysis

The Management's Discussion and Analysis (MD&A) of the City of Lynchburg's (City) financial statements offers the readers a narrative overview and analysis of the City's financial activities for the fiscal year ended June 30, 2004. The Lynchburg City Schools (Schools) component unit is included in this narrative also. The information presented here should be considered in conjunction with additional information provided in the Letter of Transmittal.

FINANCIAL HIGHLIGHTS

- The total assets of the City exceeded its total liabilities at June 30, 2004 by \$303.2 million (net assets). Unrestricted net assets of \$55.3 million were available to meet the City's future obligations. This represented \$32.3 million for governmental activities, which included the General Fund, and \$23 million for business-type activities which included the City's Enterprise Funds (Water, Sewer, Airport, and Solid Waste Management).
- The General Fund's undesignated fund balance of \$16.7 million was 14% of total General Fund revenues of \$122.2 million as compared to the Council adopted undesignated fund balance policy target of 10% or \$12.2 million, which represented \$4.5 million more than the target.
- Because of prior period adjustments, both the City's and Schools' FY 2003 net assets have been restated. Please refer to Note 19 in the Comprehensive Annual Financial Report for more detailed information regarding the prior period adjustments. In comparison with the prior fiscal year, the City's total net assets increased 4% or \$11.1 million to \$303.2 million from \$292.1 million in FY 2003 (restated from \$289.6 million). Net assets of governmental activities increased 3% or \$4.9 million to \$168.2 million from \$163.3 million in FY 2003 (restated from \$161.3 million); and, net assets of business-type activities increased 5% or \$6.2 million to \$135 million from \$128.8 million in FY 2003 (restated from \$128.3 million). The Schools' total net assets decreased 47% or \$1.4 million to \$1.6 million from \$3 million in FY 2003 (restated from \$6.6 million).
- The City's total revenues of \$179.1 million increased 6% or \$10.4 million, and the City's total expenses of \$168 million increased 4% or \$6.5 million from FY 2003. The City's general revenues and transfers of \$96.9 million were \$11.1 million more than the expenses net of program revenues of \$85.8 million.
- The City's total debt increased by 19% or \$42.9 million to \$267.5 million for FY 2004 from \$224.6 million for FY 2003. New long-term debt of \$54 million was issued, while there was \$13.5 million of planned principal retirements. The new debt of \$54 million included \$8.5 million from the Virginia Revolving Loan Program (VRL) for sewer capital projects, a \$7.5 million bond anticipation note for the Schools, and general obligation bonds of \$28.2 million. Of the \$28.2 million in new debt, \$14.1 million retired \$12.2 of governmental activities and \$1.9 million of business-type activities outstanding principal balances on the line of credit interim financing instrument. A capitalized lease of \$6.6 million for a human services facility and a \$3.2 million note payable for the BluffWalk Hotel/Restaurant Center downtown revitalization project were new debt obligations for governmental activities. The City refinanced seven (7) revenue bond issues from the Virginia Revolving Loan Program for sewer capital projects. The refinancing changed the maturity from a twenty-year (20) to a thirty-year (30) amortization schedule for zero percent interest rate loans totaling \$29.1 million at the end of FY 2004.

OVERVIEW OF THE FINANCIAL STATEMENTS

The Comprehensive Annual Financial Report (CAFR) consists of four sections: *introductory, financial, statistical and compliance*. The financial section consists of the *independent auditor's report, management's discussion and analysis, basic financial statements and required supplementary information*. This Management's Discussion and Analysis serves as an introduction to the City's basic financial statements, which are the *government-wide financial statements, fund financial statements, and notes to the financial statements*. In addition to the required elements, an *other supplementary information* section is included which presents combining statements for non-major governmental, special revenue and capital funds, agency funds, discretely presented component units, budget and actual schedules for discretely presented component units, and other supplemental schedules.

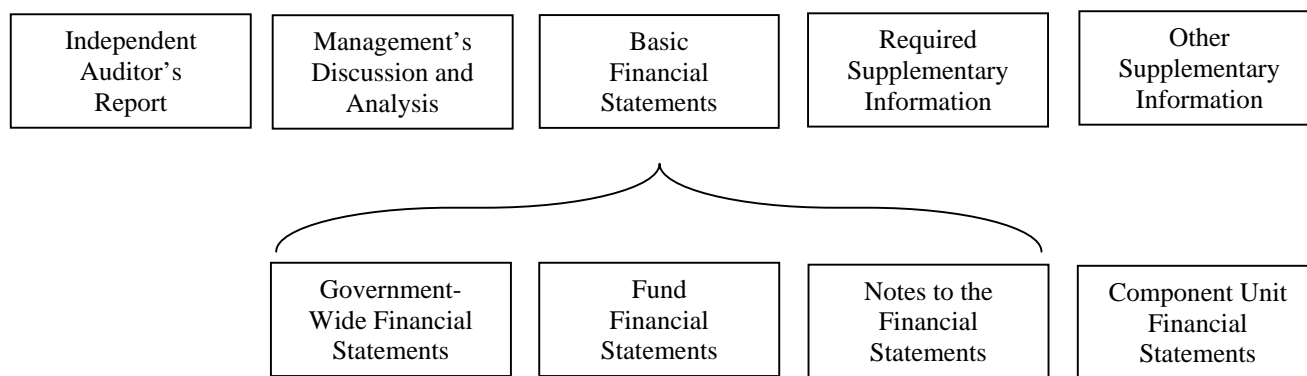
The City's basic financial statements present two kinds of statements, each with a different snapshot of the City's finances. Both the government-wide and fund perspectives allow the reader to address relevant questions, broaden the basis of comparison and enhance the City's accountability.

- The first two statements are *government-wide financial statements* that provide both *short-term* and *long-term* information about the City's overall financial status.
- The remaining statements are *fund financial statements* that focus on *individual parts* of the City government, reporting the City's operations in more detail than the government-wide statements.
 - *Governmental fund statements* tell how *general government services* like public safety are financed in the *short-term* as well as what remains available for future spending.
 - *Proprietary fund statements* offer *short- and long-term* financial information about the activities the government operates *like businesses*, such as the public utilities systems (water and sewer).
 - *Fiduciary fund statements* provide information about the financial relationships in which the City acts solely as a *trustee or agent* for the benefit of others to whom the resources belong.

The financial statements also include *notes* that detail data supporting the information in the financial statements. The statements are followed by a section of *required supplementary information* that further explains and supports the information in the financial statements. Figure A summarizes the required elements of the financial section and its organization in the CAFR.

Figure A

Required Components of Lynchburg's Financial Section



GOVERNMENT-WIDE FINANCIAL STATEMENTS

The government-wide financial statements are similar to those used by private-sector companies and report information about the City as a whole. One of the most important questions asked about the City's finances is, "Is the City as a whole better or worse as a result of the year's activities?". The Statement of Net Assets and the Statement of Activities, which are the government-wide statements, report information about the City's finances and its activities to answer this question. These statements include all assets and liabilities using the accrual basis of accounting. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. These statements combine and consolidate short-term, available resources with capital assets and long-term obligations.

The Statement of Net Assets and the Statement of Activities report the City's net assets and changes in net assets. One can think of the City's net assets – the difference between assets and liabilities – as a way to measure the City's financial health, or financial position. Over time, increases or decreases in net assets help determine whether the City's financial position is improving or deteriorating.

In the Statement of Net Assets and the Statement of Activities, the City is divided into the following:

Governmental activities - Most of the City's basic services are reported here: general government, police, fire, public works, health and human services, parks and recreation, community development and fleet internal services. Primarily, property taxes, other taxes, and intergovernmental revenue finance these activities.

Business-type activities - The financial information for the water, sewer, airport and solid waste activities are reported here. The City charges a fee to customers to fund all or most of the cost of services provided by these activities.

Component units - The City also includes three separate legal entities in its Report – the Lynchburg City Schools, the Greater Lynchburg Transit Company, and the Business Development Centre, Inc. While these represent legally separate entities, their operational or financial relationship with the City makes the City financially accountable.

The basic Government-wide financial statements are on pages 4-5 of this report.

FUND FINANCIAL STATEMENTS

The focus is on the City's most significant funds. A fund is a grouping of related accounts used to maintain control over resources segregated for specific activities or objectives. The City uses fund accounting to ensure and demonstrate fiscal accountability. As described in the following information, the City uses governmental, proprietary, and fiduciary fund financial statements to provide detailed information regarding the City's most significant funds.

Governmental Funds

Governmental funds report most of the City's basic services. The funds focus on cash and other financial resources that can be readily converted to cash flows in and out, and balances left at year-end that are available for future spending. Consequently, the governmental funds statements provide a near or short-term view of the City's finances that helps the reader determine whether there are greater or fewer financial resources available in the near future to finance City programs. Because this information does not encompass the long-term focus of the government-wide statements, additional information is provided at the bottom of the governmental funds statements that explain the relationship (or differences) between them. The basic Governmental Funds financial statements are on pages 6-10 of this report.

Proprietary Funds

Proprietary funds report the same functions that are presented as business-type activities in the government-wide financial statements. Proprietary funds are classified as enterprise or internal service funds. An enterprise fund reports any activity for which fees are charged to external users for goods or services. Internal service funds account for goods and services provided on a cost reimbursement basis from activities within the government. The City maintains four enterprise funds to account for the airport, water, sewer, and solid waste operations; and, an internal service fund to account for its fleet services. Because fleet services predominantly benefit governmental rather than business-type functions, the internal service fund is included within governmental activities in the government-wide financial statements. The basic Proprietary Funds financial statements are on pages 11-14 of this report.

Fiduciary Funds

Fiduciary funds account for assets held by the City in a trustee capacity or as an agent for others. Activities from fiduciary funds are not included in the government-wide financial statements because the City cannot use these assets for its operations. The basic Fiduciary Funds financial statement is on page 15 of this report.

Notes to the Financial Statements

The Notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements, Transmittal Letter and the MD&A. The Notes to the financial statements are on pages 16-47 of this report.

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the City's progress in funding its obligation to provide pension benefits to its employees. Required supplementary information is included on page 48 of this report.

The Combining and Individual Fund Statements and Schedules for all Non-major Funds, which are governmental, special revenue, and capital projects funds are included on pages 50-59 of this report.

The Schools' and the City's financial statements are included in one Comprehensive Annual Financial Report. The Schools' fund financial statements are included on pages 60-64 of this report.

The Greater Lynchburg Transit Company and the Business Development Centre, Inc. issue separate reports. The component unit financial statements are included on pages 65-67 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Statement of Net Assets

The following table reflects condensed information on the City's net assets. The net assets for the governmental activities, business activities, total primary government and the Schools' component unit have been restated for FY 2003 due to the prior period adjustments detailed in Note 19 of the Comprehensive Annual Financial Report. Percentage changes in the table below were rounded for the following narrative.

Summary of Statement of Net Assets As of June 30, 2004 (in millions)

	Governmental Activities		Business-Type Activities		Total Primary Government		Percent Change	Component Unit Schools	
	2004	2003 Restated	2004	2003 Restated	2004	2003 Restated		2004	2003 Restated
Current and other assets	\$ 61.6	\$ 45.3	\$ 41.3	\$ 31.8	\$ 102.9	\$ 77.1	33.46%	\$ 13.4	\$ 13.1
Capital Assets	241.7	220.6	226.1	219.0	467.8	439.6	6.41%	1.7	1.8
Total Assets	303.3	265.9	267.4	250.8	570.7	516.7	10.45%	15.1	14.9
Long-term liabilities	123.7	92.5	128.5	119.3	252.2	211.8	19.07%	1.9	2.6
Other liabilities	11.4	10.1	3.9	2.7	15.3	12.8	19.53%	11.6	9.3
Total liabilities	135.1	102.6	132.4	122.0	267.5	224.6	19.10%	13.5	11.9
Net Assets									
Invested in capital assets, net of related debt	135.9	133.2	112.0	104.4	247.9	237.6	4.34%	0.4	0.4
Restricted	-	0.1	-	7.2	-	7.3	-100.00%	-	0.1
Unrestricted	32.3	30.0	23.0	17.2	55.3	47.2	17.16%	1.2	2.5
Total net assets	\$ 168.2	\$ 163.3	\$ 135.0	\$ 128.8	\$ 303.2	\$ 292.1	3.80%	\$ 1.6	\$ 3.0

The City's total net assets for the total primary government increased by 4% or \$11.1 million from \$292.1 million as restated at June 30, 2003 to \$303.2 million at June 30, 2004 as outlined in the following information.

Current and other assets increased by 33%, or \$25.8 million for several reasons: bond proceeds' investments; VRL Program proceeds; investments in the regional radio system joint venture; return to the City of its unexpended local appropriation to the Schools; and, decreases in receivables and amounts due from federal and state agencies for grant programs.

Capital assets, net of depreciation, increased overall by 6% or \$28.2 million primarily due to: governmental activities buildings, landmark and facility renovations; downtown redevelopment; economic development; school buildings renovations; street infrastructure projects; Combined Sewer Overflow Program (CSO) projects; and various water infrastructure projects. Please refer to Note 8 of this report and the MD&A's capital assets section.

Long-term liabilities increased overall by 19% or \$40.4 million consisting of a \$31.2 million increase for governmental activities; and, a \$9.2 million increase for business-type activities. Please refer to Note 9 of this report and the MD&A's long-term debt section.

Other liabilities increased by 20% or \$2.5 million due to construction-in-progress, salaries and benefits, regional radio system joint venture, and an equipment installment contract.

Net assets invested in capital, net of related debt, of \$247.9 million were 82% of total net assets of \$303.2 million. This represented an increase of 4% or \$10.3 million from FY 2003 as restated. Net assets invested in capital were not available for future expenses because they were facilities, equipment and infrastructure, etc. utilized to provide services. Restricted net assets decreased 100% or \$7.3 million due to federal/state funds for CSO; and, receivables from surrounding counties, participating in the wastewater treatment plant debt service for capital improvements, classified as restricted in FY 2003 and reclassified as invested in capital, net of related debt, for FY 2004.

The City has a strong financial position with 23% or \$55.3 million of unrestricted net assets, which are comprised of 58% or \$32.3 million for governmental activities, and 42% or \$23 million for business-type activities. These unrestricted net assets increased 17% or \$8.1 million from \$47.2 million at FY 2003 as restated, and were available for providing services to the citizens of the City. Governmental activities unrestricted net assets increased by 8% or \$2.3 million from \$30 million in FY 2003 as restated, and business-type activities increased 34% or \$5.8 million from \$17.2 million in FY 2003 as restated. This increase was due to the FY 2004 results of operations; increased allowances for uncollectible accounts receivables; and the reduction of a prepaid amount from FY 2003.

The Schools' component unit total net assets of \$1.6 million decreased 47% or \$1.4 million primarily due to an enhancement in financial reporting. The fiscal year return to the City of the local unexpended appropriation to the Schools was \$1.9 million and was recorded as of the end of FY 2004. In previous fiscal years, this amount was determined and reported in the next fiscal year.

Statement of Activities

The City's total revenues and expenses for governmental and business-type activities are reflected in the following table. Both the City's and Schools' net assets for FY 2003 were restated due to prior period adjustments. Please refer to Note 19 in the Comprehensive Annual Financial Report for more detailed information regarding the prior period adjustments.

Summary of Changes in Net Assets For Fiscal Years Ended June 30, 2004 (in millions)

	Governmental Activities		Business-type Activities		Total Primary Government		Percentage Change	Component Unit Schools	
	2004	2003	2004	2003	2004	2003		2004	2003
Revenues:									
Program Revenues:									
Charges for services	\$ 7.5	\$ 7.4	\$ 30.8	\$ 29.6	\$ 38.3	\$ 37.0	3.51%	\$ 1.7	\$ 1.5
Operating grants/contributions	34.1	28.3	0.3	0.4	34.4	28.7	19.86%	45.5	43.5
Capital grants/contributions	2.1	3.4	7.2	4.0	9.3	7.4	25.68%	-	-
General Revenues:									
Property Taxes	47.7	43.8	-	-	47.7	43.8	8.90%	-	-
Other Taxes	39.0	37.6	-	-	39.0	37.6	3.72%	-	-
Unrestricted Intergovernmental	8.4	8.9	-	-	8.4	8.9	-5.62%	-	-
Interest	0.2	0.6	0.3	1.0	0.5	1.6	-68.75%	-	-
Miscellaneous	1.3	3.1	-	-	1.3	3.1	-58.06%	0.4	0.4
Transfers	-	0.6	0.2	-	0.2	0.6	-66.67%	-	-
City appropriation	-	-	-	-	-	-	-	26.0	27.0
Total Revenues	\$ 140.3	\$ 133.7	\$ 38.8	\$ 35.0	\$ 179.1	\$ 168.7	6.16%	\$ 73.6	\$ 72.4
Expenses:									
General Government	9.5	15.1	-	-	9.5	15.1	-37.09%	-	-
Education	27.7	28.4	-	-	27.7	28.4	-2.46%	75.0	72.6
Judicial	4.3	3.8	-	-	4.3	3.8	13.16%	-	-
Health and Human Services	20.4	19.7	-	-	20.4	19.7	3.55%	-	-
Public Safety	33.9	28.9	-	-	33.9	28.9	17.30%	-	-
Public Works	17.6	20.8	-	-	17.6	20.8	-15.38%	-	-
Community Development	10.4	5.3	-	-	10.4	5.3	96.23%	-	-
Cultural and Recreational	7.9	4.3	-	-	7.9	4.3	83.72%	-	-
Non-departmental	-	2.8	-	-	-	2.8	-100.00%	-	-
Interest/fees long-term debt	3.5	4.2	-	-	3.5	4.2	-16.67%	-	-
Transfers	0.2	-	-	0.6	0.2	0.6	-66.67%	-	-
Transit	-	-	-	-	-	-	-	-	-
Water	-	-	8.9	7.9	8.9	7.9	12.66%	-	-
Sewer	-	-	13.2	11.1	13.2	11.1	18.92%	-	-
Airport	-	-	3.6	3.1	3.6	3.1	16.13%	-	-
Solid Waste Management	-	-	6.9	5.5	6.9	5.5	25.45%	-	-
Total Expenses	\$ 135.4	\$ 133.3	\$ 32.6	\$ 28.2	\$ 168.0	\$ 161.5	4.02%	\$ 75.0	\$ 72.6
Change in net assets	4.9	0.4	6.2	6.8	11.1	7.2	54.17%	(1.4)	(0.2)
Net Assets Beginning Restated	163.3	160.9	128.8	121.5	292.1	282.4	3.43%	3.0	6.8
Net Assets End of Year	\$ 168.2	\$ 161.3	\$ 135.0	\$ 128.3	\$ 303.2	\$ 289.6	4.70%	\$ 1.6	\$ 6.6

Governmental Activities

The City's governmental activities are comprised of the General Fund, Fleet Internal Services Fund, and Special Revenue Funds primarily for general government Grant Funds, City Capital and Schools' Capital Projects Funds. Total net assets increased 3% or \$4.9 million from \$163.3 million as restated at June 30, 2003 to \$168.2 million at June 30, 2004. The net assets at FY 2003 for the City were restated due to prior period adjustments. Please refer to Note 19 in the Comprehensive Annual Financial Report for more detailed information regarding the prior period adjustments.

Current and other assets increased 36% or \$16.3 million due to: \$13.7 million in bond proceeds investments; \$1.7 million regional radio system joint venture investment; \$1.9 million of the Schools fiscal year amount to return to the City of its local unexpended appropriation; and, \$1 million of overall decreased receivables and amounts due from the federal and state agencies for grant programs. Of the \$26.5 million in cash and investments, 15% or \$4.0 million was dedicated to capital activity, and not restricted for financial reporting purposes.

Capital assets, net of depreciation, increased by 10% or \$21.1 million while over \$24 million in facilities such as the City Stadium and other building improvements, the Monument Terrace Grand Staircase landmark, the Ninth Street corridor and other street infrastructure projects were placed in service.

Long-term liabilities increased overall by 34% or \$31.2 million. Total new debt of \$38.4 million included \$21.1 million in a new debt issue, \$6.6 million for a capital lease to finance the Human Services facility, \$7.5 million for Schools bond anticipation notes, and \$3.2 million for a note payable for the BluffWalk Hotel/Restaurant Center project. Of the \$18.7 million in total retirements, \$12.2 was a principal payment on the line-of-credit interim financing instrument for capital projects, and \$6.5 million was planned retirements. The remaining changes in long-term liabilities related to workers' compensation, compensated absences and capitalized lease obligations. Please refer to Note 9 in this report and the MD&A's long-term debt section.

Other liabilities increased overall 13% or \$1.3 million due to the restricted payable for the regional radio system joint venture.

Net assets invested in capital, net of related debt, increased 2% or \$2.7 million as described above for capital assets. Of total net assets of \$168.2 million, 81% or \$135.9 million was invested in capital assets, net of related debt, and not available for future expenses because they were facilities, equipment, and infrastructure, etc., utilized to provide services. Please refer to Notes 8 of this report and the MD&A's capital assets section.

Unrestricted net assets were 19% or \$32.3 million of total net assets and available to provide services to citizens. The 8% or \$2.3 million increase was comprised primarily of \$4.9 million resulting from current year revenue and expense activity; \$0.3 million of increased allowances for uncollectible accounts receivables; and, the \$0.9 million reduction of a prepaid amount from FY 2003.

Revenues

Revenues from governmental activities increased 5% or \$6.6 million from \$133.7 million at June 30, 2003 to \$140.3 million at June 30, 2004.

General revenues, specifically Property Taxes of \$47.7 million, 35% of total revenues, and Other Local Taxes of \$39 million, 28% of total revenues, were the largest components of this revenue category equaling \$86.7 million, or 63% of total revenues. Real property taxes revenue, the City's largest single source of revenue, was \$34 million which was a 10%, or \$3.2 million increase from last year. The City's assessed real property tax base for FY 2004 increased 10.64% due to general reassessments that occur every other fiscal year. The real property tax rate has been \$1.11 per \$100 of assessed real property value for the last seven years.

Of the \$47.7 million in Property Taxes revenues, the City received \$13.8 million from personal property taxes, which was 10% of total revenues and comprised of taxes on individual automobiles, business personal property, and machinery and tools, and was the second largest revenue source. The City received reimbursement from the Commonwealth of Virginia of \$5.3 million for taxes on individual automobiles. Under the provisions of the Personal Property Tax Relief Act of 1998 (PPTRA), the state's share was based on 70% percent of the individual taxpayers automobile levy. When the state reimbursement was added back to the local personal property taxes, there was a total of \$19.1 million, reflecting a 4%, or \$0.8 million increase from last year's revenue of \$18.3 million.

Other Taxes of \$39 million, 28% of total revenues was comprised of revenue from Local Sales, Consumer Utilities, Business Licenses, and Meals Taxes. Local Sales Tax revenues were \$11.5 million for FY 2004 which increased 5% or \$0.5 million from FY 2003. Consumer Utility Tax revenues increased 16% or \$0.9 million due to a cold winter. In spite of the economic downturn, Meals Taxes of \$7.5 million and Business Licenses Taxes of \$6.1 million increased slightly. Tobacco taxes increased 86% or \$0.6 million due to an increase in the tax rate of 133% from \$.15 to \$.35 and from \$.1875 to \$.4375 per pack for the categories of the tobacco tax. The combination of these revenue sources resulted in an overall increase of \$1.4 million in Other Taxes revenue from FY 2003.

Operating grants and contributions of \$34.1 million, 24% of total revenues, were comprised of revenues from the Commonwealth of Virginia and the federal government primarily for health and human services, public works, and community development functions. The \$5.8 million or 21% increase from last year's revenue of \$28.3 million was due to: the BluffWalk Hotel/Restaurant Center project of \$1.6 million; \$1.5 million for the Comprehensive Services Act Program; LEAD Program revenues of \$0.7 million; HOME Program revenues of \$0.4 million; the Governor's Opportunity Fund for economic development of \$0.3 million; \$0.8 million from increased funding for the Adoption and Child Care Programs; and, recovery of certain Foster Care and Adoption Programs' eligible expenses from the federal Revenue Maximization Program of \$0.3 million.

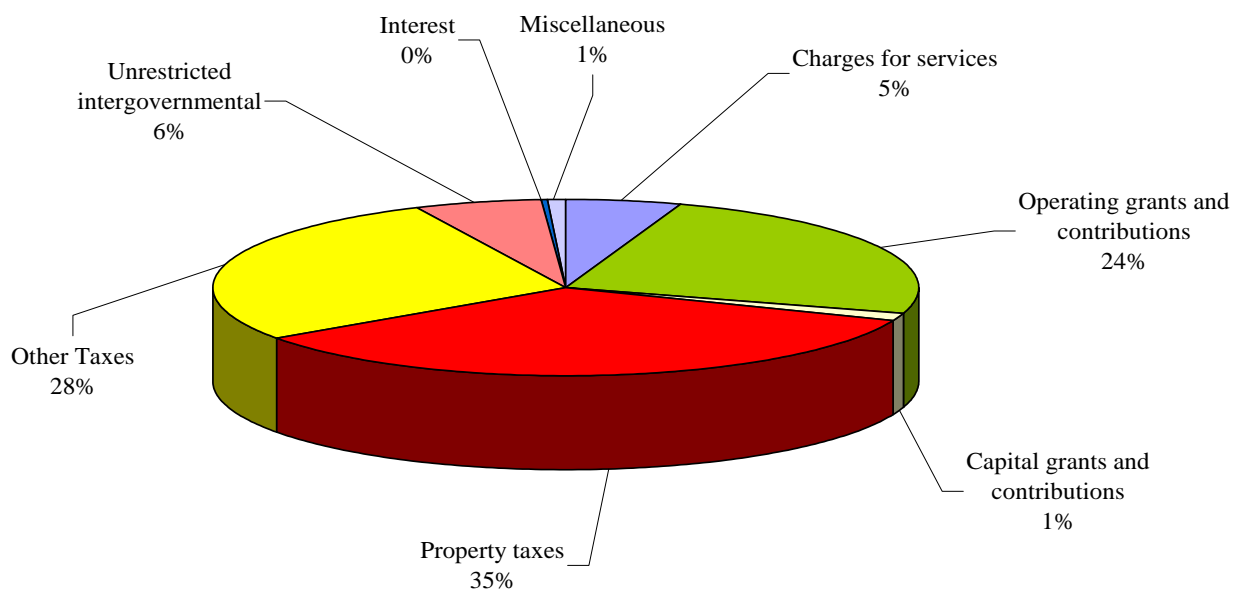
Capital grants and contributions of \$2.1 million, 1% of total revenues, decreased \$1.3 million from last year's revenue of \$3.4 million due to the completion of a streets infrastructure project for Enterprise Drive in FY 2003 which was funded by the state.

Unrestricted intergovernmental revenue from the Commonwealth of Virginia of \$8.4 million, 6% of total revenues, was comprised primarily of \$5.3 million for the City's PPTRA reimbursement and \$2.4 million for House Bill 599.

Charges for services revenues of \$7.5 million, 5% of total revenues, increased 1% or \$0.1 million from \$7.4 million in FY 2003.

Miscellaneous revenues of \$1.3 million, 1% of total revenues, decreased 58% or \$1.8 million due to the reclassification of General Fund revenues for payments from the Enterprise Funds for Indirect Cost Services provided by the General Fund departments. For the Statement of Activities, these were reclassified to reduce General Government and Public Works expenses.

Revenue by Source-Governmental Activities



Expenses

For FY 2004, governmental activities expenses totaled \$135.4 million, which included 2% budgeted increases for employee compensation and payments for education to the Schools. This represented a 2% increase or \$2.1 million as compared to FY 2003.

The City's five largest funded programs were 25% or \$33.9 million for public safety, 21% or \$27.7 million local support for education, 15% or \$20.4 million for health and human services, 13% or \$17.6 million for public works, and 8% or \$10.4 million for community development. Education continued to be one of the City's highest priorities and commitments. In addition to the local operating contribution, the City contributed \$12.2 million to the Schools for capital projects expenses.

The following table indicates the total cost of services and net cost of services for governmental activities.

***Net Cost of Lynchburg's Governmental Activities
For Fiscal Years Ended FY 2004
(in millions)***

Governmental Activity	Total Cost of Services		Percentage Change	Net Cost of Services		Percentage Change
	2004	2003	2004-2003	2004	2003	2004-2003
General Government	\$ 9.5	\$ 15.1	-37.09%	\$ 8.8	\$ 14.6	-39.73%
Education	27.7	28.4	-2.46%	26.4	26.7	-1.12%
Judicial	4.3	3.8	13.16%	1.5	1.1	36.36%
Health and Human Services	20.4	19.7	3.55%	4.9	6.7	-26.87%
Public Safety	33.9	28.9	17.30%	27.3	21.5	26.98%
Public Works	17.6	20.8	-15.38%	10.1	11.9	-15.13%
Community Development	10.4	5.3	96.23%	3.3	1.3	153.85%
Cultural and Recreational	7.9	4.3	83.72%	5.7	3.5	62.86%
Non-departmental	-	2.8	-100.00%	-	2.8	-100.00%
Debt service - other	3.7	4.2	-11.90%	3.7	4.2	-11.90%
Total Governmental Activities	\$ 135.4	\$ 133.3	1.58%	\$ 91.7	\$ 94.3	-2.76%

The City's governmental activities total cost of services increased 1.58% and its net cost of services decreased 2.76% from FY 2003 to FY 2004. The major changes in cost of services and net cost of services for governmental activities were as follows (percentage changes from the table were rounded in the following narrative).

General Government

- Total cost decreased by 37% or \$5.6 million primarily due to: the reclassification of \$2.5 million of General Fund revenues to a reduction of General Government expenses for the Enterprise Funds payments for Indirect Cost Services; a reclassification of \$6.1 million of the City's contributions to support local agencies/organizations from General Government as reported in FY 2003 to Public Safety and Community Development for FY 2004; and, \$3.5 million of increased costs for information technology, capital outlay, employees' post employment benefits, and fleet services.
- Net cost decreased 40% or \$5.8 million as noted above for total cost.

Health and Human Services

- Net cost decreased 27% or \$1.8 million due to: \$0.3 million of Revenue Maximization Program receipts not expended in FY 2004; \$0.1 increased revenues for juvenile services operations; reclassification of the City's \$0.5 million per diem payment for Detention Home services from Human Services to Public Safety; and, increased expenses in 100% reimbursable programs such as the Adoption and Child Care Programs.

Public Safety

- Total cost increased 17% or \$5 million due to: the reclassification of \$3.8 million of the City's contributions to support local agencies/organizations from General Government as reported in FY 2003 to Public Safety for FY 2004; reclassification of \$0.7 million for the Inspections Program from Community Development to Public Safety; and, reclassification of the City's \$0.5 million per diem payment for Detention Home services from Human Services to Public Safety.
- Net cost increased 27% or \$5.8 million as noted above for total cost and an increased expense of \$0.5 million from FY 2003 to FY 2004 for the regional jail payment.

Community Development

- Total cost increased by 96% or \$5.1 million primarily due to: \$2.1 million for the BluffWalk Hotel/Restaurant Center project; \$1.2 million local contribution to the Academy of Music renovation project; \$0.4 million disbursement of the Governor's Opportunity Fund receipts; \$0.5 million for the Community Development Block Grant and HOME Programs; reclassification of \$1.4 million of the City's contributions to support local agencies/organizations from General Government as reported in FY 2003 to Community Development for FY 2004; and, reclassification of \$0.7 million for the Inspections Program from Community Development to Public Safety.
- Net cost increased by 154% or \$2 million due to the reclassification of local contributions totaling \$2.6 million and \$0.7 million for the Inspection Program expenses as noted above in total cost.

Cultural and Recreation

- Total cost increased 84% or \$3.6 million primarily due to: \$1.1 million of operational expenses for the renovated City Stadium; and, reclassification of \$2.3 million of Parks and Grounds Maintenance expenses reported in FY 2003 as Public Works and reported in FY 2004 as Cultural and Recreational.
- Net cost increased by 63% or \$2.2 million due to the reclassification of Parks and Grounds Maintenance expenses as noted above for total cost.

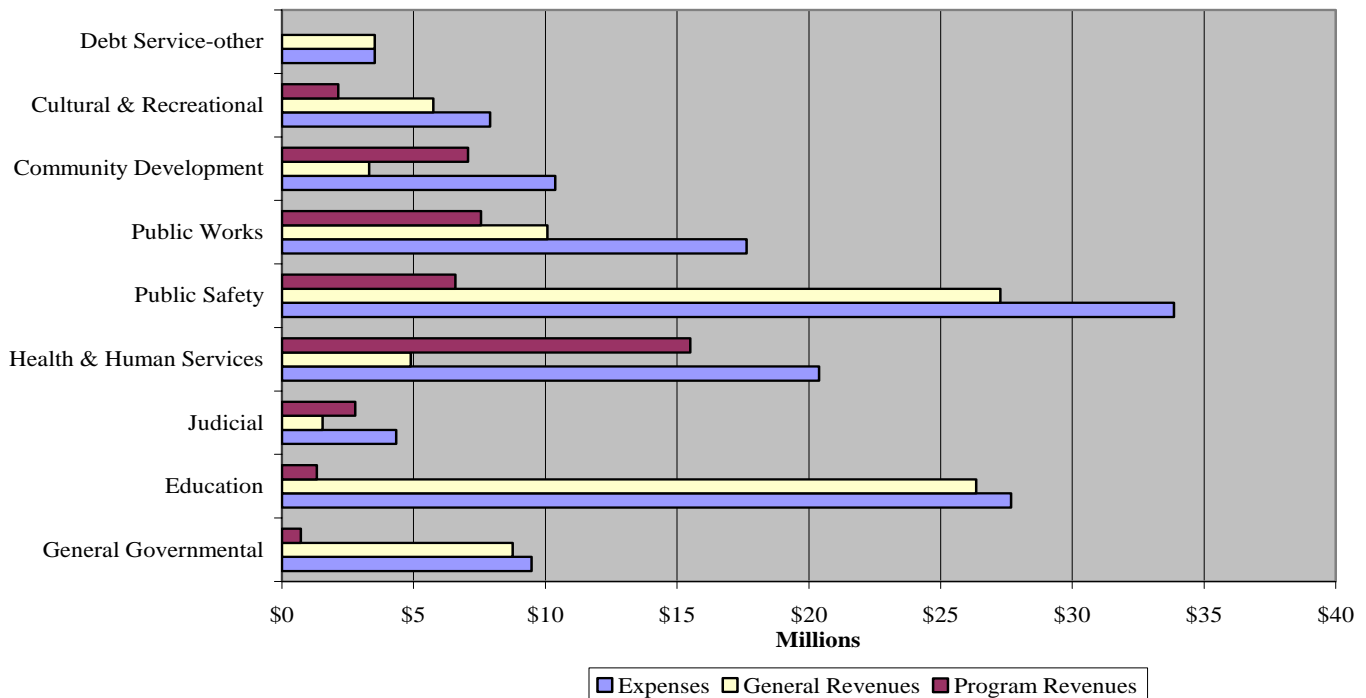
Non-departmental

- Total cost decreased 100% or \$2.8 million due to the reclassification of these expenses, primarily employees' post-employment benefits and external audit, to General Government.
- Net cost decreased 100% or \$2.8 million as noted above for total cost.

The Statement of Activities on page 5 of the CAFR shows that the \$135.2 million in governmental activities expenses were financed by \$7.5 million (6%) from those receiving services, \$34.1 million (25%) from operating grants and contributions, \$2.1 million (2%) from capital grants and contributions, and \$91.7 million (67%) from the City's general revenues. Overall, general revenues and transfers of \$96.4 million were \$4.9 million more than the \$91.5 million of expenses net of program revenues.

The following graph compares the governmental activities program expenses and program revenues, and indicates program funding from general revenues.

Program Expenses and Program Revenues - Governmental Activities



Business-type Activities

The City's business-type activities are comprised of Enterprise Funds for water, sewer, airport, and solid waste management operations. Total net assets increased by 5% or \$6.2 million from \$128.8 million as restated at June 30, 2003 to \$135 million at June 30, 2004. The net assets for FY 2003 for the City were restated due to prior period adjustments. Please refer to Note 19 of the Comprehensive Annual Financial Report for more detailed information regarding the prior period adjustments.

Current and other assets increased 30% or \$9.5 million due to increased investments and receivables for operating and capital activities. Of the \$19.9 million in cash and investments, \$4.1 million was dedicated to capital activity and an investment for landfill closure was \$3 million, both of which were not restricted for financial reporting purposes. Restricted investments of bond proceeds were \$4.4 million and increased \$2.8 million from FY 2003. Due from other governments were \$13.5 million and increased \$8.4 million from FY 2003 due to the VRL Program for Combined Sewer Overflow capital projects and a federal receivable for airport capital projects.

Capital assets, net of depreciation, increased 3% or \$7.1 million, which included the completion of \$5.6 million in CSO infrastructure projects, \$1.7 million in Route 460 waterline extension project, and \$1.8 million for waterline and meter replacements/service extensions along with the construction of a new water tank.

Long-term liabilities increased 8% or \$9.2 million. New debt of \$15.6 million included \$7.1 million in new general obligation bonds and \$8.5 million in revenue bonds from the VRL Program. Of the \$8.6 million in retirements, \$6.7 million was planned principal retirements and \$1.9 million was a principal payment on the line-of-credit interim financing instrument for capital projects. The remaining changes in long-term liabilities related to compensated absences and landfill closure obligations. Please refer to Note 9 of this report and the long-term debt section of this MD&A.

Other liabilities increased 44% or \$1.2 million primarily due to payables related to airport and sewer construction activities.

Net assets invested in capital, net of related debt, increased 7% or \$7.6 million as described above for capital assets. Please refer to Note 8 of this report and the MD&A's capital assets section. For total net assets, 83% or \$112 million of \$135 million was invested in capital, net of related debt, and not available for future expenses because they were facilities, equipment, infrastructure, and other items utilized to provide services.

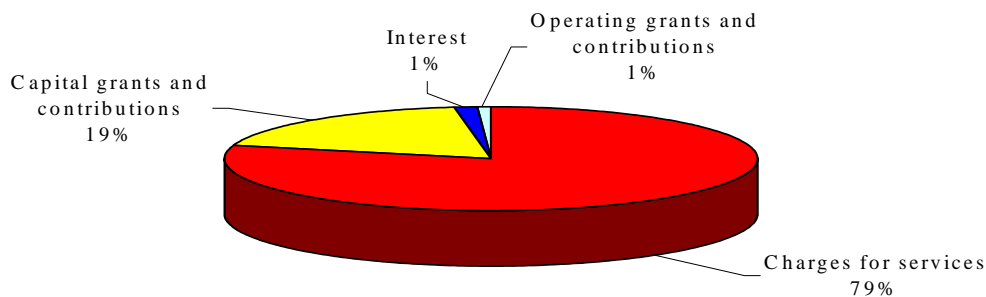
Restricted net assets decreased 100% or \$7.2 million due to the reclassification in FY 2003 as restricted to invested in capital, net of debt, in FY 2004. This amount was comprised of CSO federal/state grant and loan program funds; and, future receipts from surrounding counties, which participate in the debt service costs associated with capital improvements to the wastewater treatment plant facility and other joint use facilities.

Unrestricted net assets were 17% or \$23 million of total net assets and available to provide services to citizens. The 34% or \$5.8 million increase was due to the \$6.2 million from results of operations including fee increases in water, sewer and solid waste activities, and the \$1.2 million increase in other liabilities.

Revenues

Business-type activities revenues increased 11% or \$3.8 million from \$35 million at June 30, 2003 to \$38.8 million at June 30, 2004. This was primarily due to increased intergovernmental capital grant contributions of \$3.2 million for the CSO program and the airport. Increases in charges for services of 4% or \$1.2 million were due to rate increases in the water, sewer and solid waste activities. Of the \$38.8 million in total revenues, 79 % or \$30.8 million was from charges for services and 20 % or \$7.5 million was from operating/capital grants and contributions, the majority of which was for CSO correction activities.

Revenues by Source - Business-type Activities



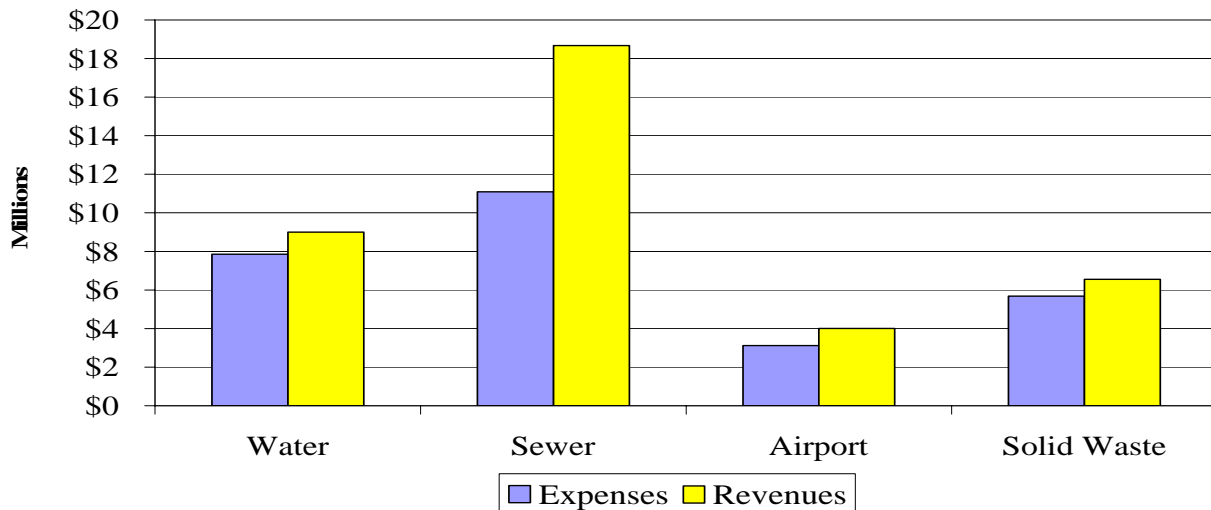
Expenses

Business-type activities expenses increased 16% or \$4.4 million from \$28.2 million at June 30, 2003 to \$32.6 million at June 30, 2004. This was due primarily to: \$0.7 million in increased sewer expenses for cleaning the James River interceptor; \$0.5 million liability to Delta Airlines in accordance with a federal reimbursable revenue-guarantee agreement; \$1.3 million of equipment and personnel costs associated with the solid waste implementation of semi-automated residential refuse collection; \$0.9 million increased depreciation; \$0.3 million in increased employees' benefits; and, \$0.3 million in increased allowances for uncollectible accounts receivables.

The City's Proprietary Funds provide the same type of information that is reported in the government-wide financial statements for business-type activities, but in more detail. Please refer to the Financial Analysis of the Fund Financial Statements-Proprietary Funds section of the MD&A for a more detailed analysis of the major funds that make up business-type activities.

Overall, business-type activities revenues were \$6.2 million more than expenses. The following graph compares the business-type activities' program expenses and program revenues.

Program Expenses and Program Revenues - Business-type Activities



Component Unit – Schools

The Schools' total net assets decreased 47% or \$1.4 million from \$3.0 million as restated at June 30, 2003 to \$1.6 million at June 30, 2004. Please refer to Note 19 of the Comprehensive Annual Financial Report for details regarding the prior period adjustments related to the restatement of FY 2003. FY 2004 other liabilities increased 25% or \$2.3 million and unrestricted net assets decreased 52% or \$1.3 million primarily due to a \$1.9 million return of the unexpended local appropriation to the City along with increases in payroll and related benefits. For total net assets of \$1.6 million at FY 2004, 25% or \$0.4 million was invested in capital, net of related debt, and not available for future expenses because this was equipment utilized to provide services.

Revenues

Total revenues for the Schools increased 2% or \$1.2 million from \$72.4 million as June 30, 2003 to \$73.6 million at June 30, 2004. For FY 2004, 47% or \$34.7 million of total revenues were received from the Commonwealth of Virginia and included \$7.7 million in sales tax receipts. The City government appropriated \$26 million to education or 35% of total revenues. Federal revenues of 12% or \$8.8 million included \$3.1 million from Title I funds to provide educational services to economically disadvantaged students, \$2.5 million to provide special education services for students with disabilities, and \$1.6 million for the operation of the federal School Nutrition Program. Other revenue sources included \$2 million or 3% from school meals sales, tuitions paid by participating school divisions to the Central Virginia Governor's School for Science and Technology, and other miscellaneous sources.

Expenses

Total expenses for the Schools increased 3% or \$2.4 million from \$72.6 million at June 30, 2003 to \$75 million at June 30, 2004. For FY 2004, 73% or \$54.8 million of total expenses were related directly to providing instruction to the 8,782 students in the Lynchburg City Schools; and, 15% or \$11 million supported maintenance and operations of school division facilities including the operations of the School Nutrition Program, which provided breakfast and lunch to students. Transportation costs for students were 4% or \$3 million of total expenses, and 3% or \$2.1 million provided for administration of the schools, attendance and health services for students. Capital outlays of 4% or \$2.7 million of total expenses included the acquisition of equipment. Purchases from capital lease proceeds of \$0.6 million were included in capital outlay expenditures on page 62 of this report.

FUND FINANCIAL ANALYSIS

Governmental Funds

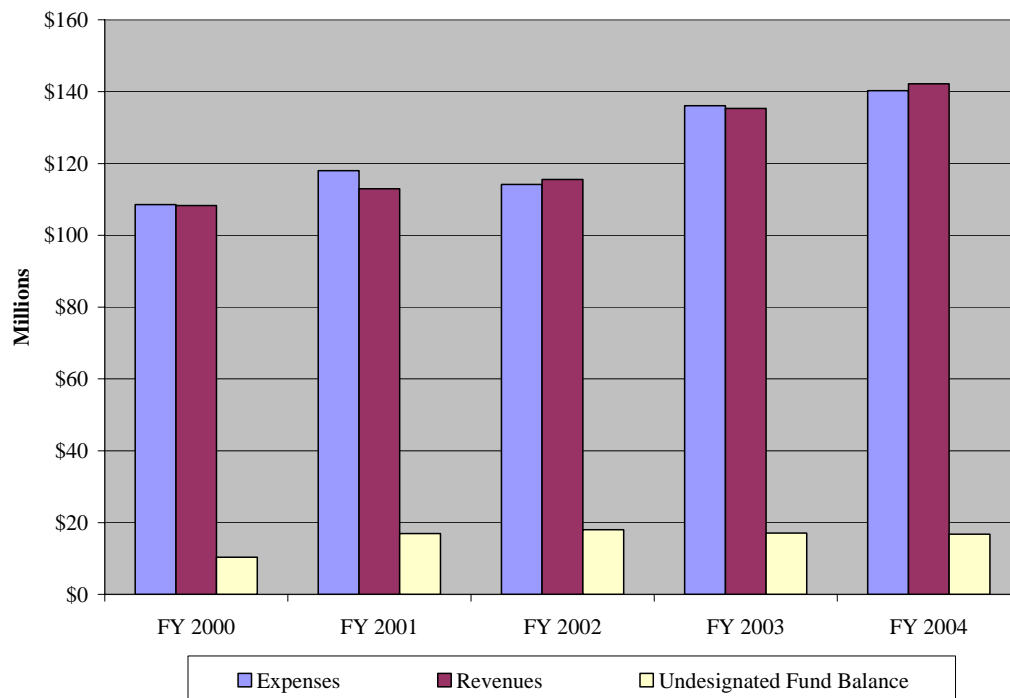
Governmental Funds include the General Fund and Other Governmental Funds, which are comprised of the Special Revenue Funds and Capital Projects Fund. The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of available resources. Such information is useful in assessing the City's financing requirements. In particular, the unreserved fund balance may serve as a useful measure of a government's net resources available for future spending.

- The FY 2003 fund balances were restated for the governmental funds, which resulted in an overall increase of \$0.3 million in prior period adjustments detailed in Note 19 of the Comprehensive Annual Financial Report.
- At the end of FY 2004, the City's governmental funds reported combined fund balances of \$42.8 million.
- Of the combined fund balances, \$19.7 million constituted undesignated fund balances available for future expenses representing \$16.7 million for the General Fund and \$3.0 million for Special Revenue Funds.
- The \$3.0 million undesignated fund balances for Other Governmental Funds was comprised of the Special Revenue Funds primarily related to the E-911 and Technology Funds. The details of all funds are on pages 52-55 of this report.
- Of the combined fund balances, \$7.7 million was designated, indicating commitment to specific uses comprised primarily of \$1.9 million reserved for the Schools, \$1.9 million for self-insurance program and \$1.2 in the special revenue funds. Reserves for outstanding encumbrances of \$15.3 million at the end of FY 2004 consisted primarily of \$11.7 million for the E.C. Glass high school renovation capital project. Please refer to Note 11 of this report for details of all designations.

General Fund

The General Fund is the chief operating fund of the City. At the end of FY 2004, the undesignated fund balance was \$16.7 million. The undesignated fund balance represented 14% of total General Fund revenues, which compared favorably to City Council's adopted undesignated fund balance policy target of 10%. The following graph and table present General Fund summary financial information for the past five years, and General Fund summary budget and actual information.

Five-Year General Fund Financial Summary



General Fund Budgetary Highlights
For Fiscal Year Ended June 30, 2004
(in millions)

<u>Description</u>	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	Variance Amended vs. <u>Actual</u>
<u>Revenues & Other Financing Sources</u>				
Taxes	\$ 83.9	\$ 83.8	\$ 85.8	\$ 2.0
Intergovernmental	25.5	26.9	27.2	0.3
Other	<u>10.9</u>	<u>30.1</u>	<u>29.1</u>	<u>(1.0)</u>
Total	<u>120.3</u>	<u>140.8</u>	<u>142.1</u>	<u>1.3</u>
<u>Expenditures & Other Financing Uses</u>				
Expenditures	88.0	138.6	133.2	5.4
Transfers	<u>33.6</u>	<u>7.1</u>	<u>7.1</u>	<u>-</u>
Total	<u>121.6</u>	<u>145.7</u>	<u>140.3</u>	<u>5.4</u>
<u>Change in Fund Balance</u>	<u>\$ (1.3)</u>	<u>\$ (4.9)</u>	<u>\$ 1.8</u>	<u>\$ 6.7</u>

Actual expenditures and other financing uses of \$140.3 million were less than revenues and other financing sources of \$142.1 million by \$1.8 million in the General Fund.

Actual revenues were on target and were within \$1.3 million or 1% of the amended budget. The taxes category realized \$2.0 million more in actual revenue than the FY 2004 amended budget. The largest increase of \$1.3 million was due to greater than anticipated real property assessments. The land book values were completed after the adoption of the budget; therefore, the final reassessments for new construction were not reflected. The sales tax revenue category performed greater than originally anticipated during the last half of the year resulting in \$0.7 million of additional revenue. Intergovernmental revenue was greater than anticipated by \$0.3 million due to more funding from the Commonwealth of Virginia for street and highway maintenance. A loss of revenue was identified in the Other category of \$1.0 million and was due to lower interest rates that reduced investment income.

Actual expenditures and transfers were \$5.4 million less than the FY 2004 amended budget and were attributable to unexpended appropriations for:

- \$2.0 million for education
- \$0.7 million for public works
- \$1.2 million for health and human services
- \$0.4 million for information technology
- \$0.2 million for employee/retiree benefits (worker's compensation indemnity/retiree benefits)
- \$0.5 million for recreation and community planning
- \$0.4 million for insurance premiums

Each year City Council appropriates funds for a contingency reserve, and for the FY 2004 budget, \$1.2 million was appropriated. City Council appropriated 53% from the contingency reserve primarily for public safety and transportation expenditures, and business license refunds. The remaining 47% returned to fund balance.

From the original FY 2004 budget of \$121.6 million, City Council approved budget amendments of 20% or \$24.1 million for the following purposes, which resulted in an amended budget of \$145.7 million:

- \$1.2 million for Academy of Fine Arts
- \$0.3 million for Monument Terrace
- \$0.5 million for salary increase in the police department
- \$0.4 million for Governor's Opportunity Funding for Areva, RR Donnelly and StarTek
- \$1.2 million for carry forward of unexpended FY 2003 appropriations into FY 2004
- \$0.6 million in contingency funding for transportation, public safety and tax refunds
- \$9.6 million principal repayment for interim financing through a line-of-credit for Schools capital projects financed temporarily with bond anticipation notes
- \$2.6 million principal repayment for interim financing through a line-of-credit for general government capital projects permanently financed with general obligation bonds
- \$6.6 million for human services building capital lease
- During each fiscal year, management reviews current year expenditures and revenue collection patterns and presents to City Council a third quarter budget amendment. For FY 2004, \$1.1 million was appropriated for third quarter adjustments and was comprised of the following:
 - \$0.1 million for additional funding for Greater Lynchburg Transit Company due to drop in passenger revenues
 - \$0.1 million for an increase in Sheriff salaries and other public safety programs
 - \$0.4 million for funding for the Comprehensive Services Act (CSA) program
 - \$0.5 million additional funding for the 100% reimbursable Adoption Program

Proprietary Funds

The City's proprietary funds are comprised of water, sewer, airport, solid waste management, and fleet services. The City accounts for the water, sewer, airport, and solid waste management as enterprise funds and fleet services as an internal service fund. In the budgetary management of the enterprise funds, the City has chosen to budget for principal retirement on long-term debt rather than depreciation. Further, the City uses two key financial indicators, fund balance and debt coverage ratios, found in financial policies adopted by City Council to ensure the financial stability of its enterprise funds. Debt coverage is defined as the number of times debt service for the related fund is covered by net income as defined and increased for depreciation and amortization expenses, and grant and interest income. Fund balance is defined as total cash less unexpended bond proceeds, customer deposits, and resources dedicated to capital projects. The fund balance ratio is determined by comparing this fund balance amount to operating expenses exclusive of depreciation, and inclusive of principal and interest debt service payments for the fiscal year.

Water Fund

The Water Fund's total net assets decreased 0.4% or \$0.1 million from \$31.1 million as restated at June 30, 2003 to \$31 million at June 30, 2004. FY 2003 total net assets were restated due to prior period adjustments. Please refer to Note 19 in the Comprehensive Annual Financial Report for more detailed information regarding the prior period adjustments.

Current and other assets increased 19% or \$1.7 million to \$10.8 million for FY 2004 primarily due to increased investments and receivables from a general rate increase of 4% for most customers, 9% to 11% for large commercial and industrial customers and a 10% increase in water connection fees. A total of \$2 million of the \$10.8 million in current and other assets was cash and investments, which were not restricted for financial statement reporting purposes, but dedicated to fund capital activity.

Capital assets, net of depreciation, increased 3% or \$1.2 million. Water infrastructure assets increased by \$2.3 million and depreciation increased \$0.4 million. Please refer to Note 8 of this report and the MD&A capital assets section for details.

Long-term liabilities increased 13% or \$2.8 million. New debt of \$4 million was general obligation bonds and planned retirements were \$1.2 million. Please refer to Note 9 of this report and the MD&A long-term debt section.

Unrestricted net assets available to fund future expenses decreased by 6% or \$0.4 million from \$7 million as restated at June 30, 2003 to \$6.6 million for FY 2004. This was primarily due to the results of operations as noted below for operating revenues and expenses, and a \$0.2 million loss on disposition of assets.

Operating revenues totaled \$9 million and increased 5% or \$0.4 million from FY 2003 revenues of \$8.6 million due to rate increases. Operating expenses totaled \$7.8 million and increased 13% or \$0.9 million from FY 2003 expenses of \$6.9 million. The overall increase was due to reclassification of \$0.2 million for the Combined Sewer Overflow Program (CSO) administrative office from the sewer capital fund, \$0.1 million for a new meter replacement program initiated in FY 2004, increased personnel benefits of \$0.2 million, and \$0.4 million in depreciation.

The fund balance of \$4.8 million resulted in a fund balance ratio of 60%, which compared favorably to the City Council adopted policy of 25%. The debt coverage ratio was 1.47, which compared favorably to City Council's-adopted financial policy target of 1.2.

Sewer Fund

The Sewer Fund's total net assets increased 8% or \$5.5 million from \$68.7 million as restated at June 30, 2003 to \$74.2 million at June 30, 2004. FY 2003 total net assets were restated due to a prior period adjustment for an increase in capital assets for costs previously expensed as detailed in Note 19 of this report.

Current and other assets increased 61% or \$8.1 million to \$21.4 for FY 2004. Investments and receivables increased 74% or \$1.2 million primarily due to an 8.6% general sewer rate increase and a 10% connection fees increase. A total of \$2.6 million of the \$21.4 million in current and other assets was cash and investments, which were not restricted for financial statement reporting purposes, but dedicated to fund capital activity. Due from other governments increased \$7.7 million primarily as a result of \$7.2 million of available proceeds from the VRL Program revenue bond issues of \$2.5 million and \$6 million, and \$0.5 million from federal/state grants. Noncurrent assets decreased by \$1.2 million for amounts due from the surrounding counties that participate in the capital costs associated with the operation of the regional wastewater treatment plant.

Capital assets, net of related, debt increased overall 10% or \$5.8 million primarily due to capitalized infrastructure projects of \$5.6 million for the CSO program along with other sewer extension projects and \$0.3 increase in depreciation.

Long-term liabilities increased 10% or \$8 million. New debt included \$8.5 million in revenue bonds from the VRL Program and \$3.1 million in general obligation bonds. Indenture agreements require the City to pledge Sewer Fund revenues as collateral for the revenue bonds, and to maintain debt coverage in the Sewer Fund equal to at least 1.15 of all debt service payments. Planned retirements were \$4.1 million.

Restricted net assets decreased by 100% or \$7 million due to CSO federal/state grant and loan program funds; and, future receipts from surrounding counties, which participate in the debt service costs associated with capital improvements to the wastewater treatment plant facility and other joint use facilities, reclassified from FY 2003 as restricted to unrestricted net assets in FY 2004.

Unrestricted net assets increased by 163% or \$6.7 million from \$4.1 million at June 30, 2003 to \$10.8 million at June 30, 2004 due to the results of operations and the reclassification of the federal/state CSO Program funds and amounts due from counties participating in the wastewater treatment plant facility and other joint use facilities from restricted in FY 2003 to unrestricted in FY 2004.

Operating revenues totaled \$13.9 million and increased 5% or \$0.6 million from FY 2003 revenues of \$13.3 million. This was due to the rate increases noted previously. In addition, some contract and large use customers had flow decreases that reduced revenues. Operating expenses totaled \$10.3 million and increased 12% or \$1.1 million from FY 2003 expenses of \$9.2 million. This was primarily due to \$0.3 million for depreciation and \$0.7 million for cleaning the James River interceptor.

The City Council-adopted financial policies for the Sewer Fund reflect the requirements of the Special Order for Combined Sewer Overflow (CSO) Control, as described in Note 16 of this report. The City is required to: maintain a debt coverage ratio less than 1.5; increase sewer rates in order that the annual sewer bill for a customer with 7 hcf (hundred cubic feet) of monthly use equals or exceeds 1.25% of MHI (Medium Household Income) by 2009; and, limit the amount of operating cash reserves in the Sewer Fund to less than 25% of the ensuing fiscal year's Sewer Fund budget appropriations. As of June 30, 2004, the average annual sewer bill for a customer with seven (7) hcf of monthly use was 1.16% of MHI and operating cash reserves were 17.21% of the ensuing fiscal year's Sewer Fund budget appropriations. Additionally, the fund balance of \$2.3 million resulted in a fund balance ratio of 18%, compared to the City Council adopted policy of 25%. The debt coverage ratio was 1.33, which was consistent with City Council's adopted financial policy target of 1.2 and the CSO Order requirements. Please refer to Note 9 of this report for details.

Airport Fund

The Airport Fund's total net assets increased 5% or \$1.0 from \$22 million June 30, 2003 to \$23 million at June 30, 2004.

Current and other assets increased 79% or \$0.7 million due to a federal receivable for capital grants.

Capital asset activity included \$1.5 million of construction costs incurred to date to rehabilitate Taxiway B.

Unrestricted net assets available to fund future expenses increased 33% or \$0.2 million from \$0.6 million at June 30, 2003 to \$0.8 million at June 30, 2004. This was due to the reclassification of Passenger Facility Charge (PFC) revenues from restricted net assets for FY 2003 to unrestricted net assets for FY 2004.

Operating revenues totaled \$1.5 million and decreased 6% or \$0.1 million from FY 2003 revenues of \$1.6 million. This was due to decreased revenues in car rental fees. Operating expenses totaled \$3.7 million and increased 23% or \$0.7 million from FY 2003 expenses of \$3.0 million. This was primarily due to a one-time \$0.5 million liability to Delta Airlines in accordance with a federal reimbursable revenue-guarantee agreement, and a \$0.1 increase in depreciation expense. Capital contributions totaled \$2.5 million and increased 243% or \$1.7 million from FY 2003 capital contributions of \$0.7 million due to \$1.3 million for the Taxiway B rehabilitation project and \$0.5 million for an Air Service Grant.

Because of the subsidy provided from the General Fund of \$0.5 million, the City Council-adopted financial policies were not applicable to this Fund.

Solid Waste Management Fund

The Solid Waste Management Fund's total net assets increased 5% or \$0.4 million from \$7.4 million at June 30, 2003 to \$7.8 million at June 30, 2004. The FY 2003 amount was restated from \$7.1 million due to a \$0.3 million decrease for landfill closure/post closure costs prior period adjustments.

Current and other assets increased by 1% or \$0.1 million primarily due to increased receivables from solid waste residential refuse collection fees. An investment of \$3 million was restricted for landfill closure liability.

Capital assets, net of related debt, decreased 4% or \$0.4 million due to decreases in capital assets, net of depreciation, from the disposal of some landfill equipment and machinery, and a corresponding decrease of 15% or \$1.1 million in long-term liabilities.

Unrestricted net assets available to fund future expenses increased 2% or \$0.1 million from \$5.9 million as restated at June 30, 2003 to \$5.8 million at June 30, 2004.

Operating revenues totaled \$6.4 million and increased 19% or \$1 million from FY 2003 revenues of \$5.4 million. This was due to increased revenues of \$0.2 million from decals and tags, and \$0.6 million from a new flat fee for residential refuse disposal implemented in FY 2004. In addition, revenues associated with production for contract industrial customers and contract private haulers exceeded previous estimates, resulting in \$0.2 million increased revenues. Operating expenses totaled \$6.2 million and increased 30% or \$1.4 million from FY 2003 expenses of \$4.8 million primarily due to \$1.3 million in equipment and personnel costs associated with the implementation of semi-automated residential refuse collection. In addition, landfill closure costs increased \$0.1 million due to inflation as well as the addition of geotextile filter materials to the closure cost estimate.

The fund balance of \$4.6 million resulted in a fund balance ratio of 59%. This ratio compared favorably to City Council's financial policy target of 40%. Additionally, the debt coverage ratio was 2.18, which compared favorably to City Council's adopted financial policy target of 1.2.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The primary government's capital assets, net of depreciation, as of June 30, 2004 for its governmental and business-type activities was \$467.8 million as reflected in the following schedule. The Schools had \$1.7 million in capital assets.

Capital Assets
As of June 30, 2004/2003
(in millions)

	Governmental Activities		Business-type Activities		Total Primary Government		Percentage Change	Component Unit Schools	
	2004	2003	2004	2003	2004	2003	2004-2003	2004	2003
	Restated		Restated		Restated			Restated	
Non-Depreciable Assets:									
Land	\$ 9.0	\$ 5.8	\$ 5.4	\$ 5.2	\$ 14.4	\$ 11.0	30.91%	\$ -	\$ -
Construction in Progress	26.0	18.4	24.2	20.3	50.2	38.7	29.72%	-	-
Other Capital Assets:									
Land Improvements	6.3	3.9	15.1	15.0	21.4	18.9	13.23%	-	-
Buildings and Improvements	145.8	130.9	35.9	35.7	181.7	166.6	9.06%	-	-
Infrastructure	183.4	183.9	222.1	212.2	405.5	396.1	2.37%	-	-
Machinery and Equipment	27.7	24.4	14.7	16.1	42.4	40.5	4.69%	5.7	5.5
Less: Accumulated Depreciation	(156.5)	(146.7)	(91.3)	(85.5)	(247.8)	(232.2)	6.72%	(4.0)	(3.7)
Total	<u>\$ 241.7</u>	<u>\$ 220.6</u>	<u>\$ 226.1</u>	<u>\$ 219.0</u>	<u>\$ 467.8</u>	<u>\$ 439.6</u>	<u>6.41%</u>	<u>\$ 1.7</u>	<u>\$ 1.8</u>

The gross cost and accumulated depreciation balances of the primary government and the Lynchburg City Schools component unit as of June 30, 2003 were restated. Net capital assets in the FY 2003 Comprehensive Annual Financial Report were reported as \$214.9 million for governmental activities, \$220.4 million for business-type activities and \$5.2 million for the Lynchburg City Schools' component unit. The net effect of the restatement was a \$5.7 million increase in governmental activities investment in capital assets, a \$1.4 million decrease in business-type activities capital assets and a \$3.4 million decrease in School's capital assets.

During FY 2004, the City's net increase in capital assets (including additions, deletions, and depreciation) was 6.41% or \$28.2 million. Major capital asset events during the fiscal year included the following (in millions):

Construction in progress converted to capital assets during FY 2004:

Lynchburg City Stadium renovation project, financed by a combination of general obligation bonds and local pay-as-you-go capital monies	\$6.6
Combined Sewer Overflow (CSO) replacement projects, financed by a combination of Virginia Revolving Loan Funds (VRLF), State and Federal CSO grants and general obligation bonds	5.6
Ninth Street improvement project, financed by general obligation bonds	2.5
Monument Terrace Grand Staircase landmark renovation, financed by general obligation bonds	2.4
Route 460 waterline extension connecting the City of Lynchburg and Campbell County lines at Mt. Athos, financed by general obligation bonds	1.7
Monument Terrace building renovation project, financed by general obligations bonds	1.2
Various waterline and large meter replacements, service extension projects and property purchase for the waste water treatment facility, financed by general obligation bonds	1.3
Renovations to several Lynchburg City Schools, financed by general obligation bonds, State Lottery funds and State Construction funds	1.0
Various improvements to City buildings, financed by general obligation bonds	.9

Construction of a new water tank to service growth in the Candler's Mountain area, financed by general obligations bonds .5

Total construction in progress converted to capital assets 23.7

Acquisition of a new Human Services building, financed through capital lease agreement 6.6

On going replacement of the City's fleet of vehicles, financed through local operating monies 2.7

Total major asset events during FY 2004 \$33.0

Construction in progress at the end of FY 2004 included additional CSO abatement projects, renovation of E. C. Glass High School, renovation of the Old Courthouse Museum, renovation of the Abert Water Plant facility, rehabilitation of Taxiway B at the Lynchburg Regional Airport and a variety of other building, street, bridge, water, sewer and recreation projects.

Additional information on the City's capital assets can be found in Note 8 of this report.

Long-term Debt

At the end of FY 2004, the City's total outstanding debt was \$245.7 million, with \$126.1 million of business-type activities debt supported by the individual funds, resulting in net bonded debt for governmental activities of \$119.6 million. Capital leases of \$1.9 million for the regional radio system joint venture and \$6.5 million for the human services facility were included in outstanding debt, while liabilities for compensated absences and workers' compensation of \$4.4 million, and landfill closure liability of \$2.6 million were excluded.

Lynchburg's Outstanding Debt General Obligation and Revenue Bonds As of June 30, 2004/2003 (in millions)

	Governmental Activities		Business-type Activities		Total Primary Government		Percentage Change
	2004	2003	2004	2003	2004	2003	2004-2003
General Obligation Bonds	\$ 100.3	\$ 85.2	\$ 66.9	\$ 64.1	\$ 167.2	\$ 149.3	11.99%
Revenue Bonds	-	-	59.2	52.9	59.2	52.9	11.91%
Literary Bonds	0.2	0.2	-	-	0.2	0.2	0.00%
General Obligation Notes	7.5	0.6	-	-	7.5	0.6	1150.00%
Note Payable	3.2	-	-	-	3.2	-	100.00%
Capital Lease	8.4	2.1	-	-	8.4	2.1	100.00%
Total	<u>\$119.6</u>	<u>\$88.1</u>	<u>\$126.1</u>	<u>\$117.0</u>	<u>\$245.7</u>	<u>\$205.1</u>	<u>19.78%</u>

During FY 2004, the City retired \$13.5 million of outstanding principal through planned retirements. The City issued \$54 million of new long-term debt. The new debt included \$8.5 million of revenue bonds from the Virginia Revolving Loan Program for Sewer activities, a \$7.5 million bond anticipation note for the Schools, and general obligation bonds of \$28.2 million. The general obligations bonds consisted of \$21.1 million for governmental activities and \$7.1 million for business-

type activities. In addition, \$14.1 million of the \$28.2 million in new debt retired the \$12.2 of governmental activities and the \$1.9 million of business-types activities outstanding principal balances on the line-of-credit interim financing instrument. A capitalized lease of \$6.6 million for a human services facility and a \$3.2 million note payable for the BluffWalk Hotel/Restaurant Center downtown revitalization project were additional governmental activities new debt obligations. The City refinanced seven (7) revenue bond issues from the Virginia Revolving Loan Program for sewer capital projects. The refinancing changed the maturity from a twenty-year (20) to a thirty-year (30) amortization schedule for the zero percent interest rate loans, which had an outstanding balance of \$29.1 million at the end of FY 2004.

The City's general obligation bonds continued to maintain an Aa3 rating from Moody's Investors Service, an AA rating from Standard and Poor's Rating Service and an AA rating from Fitch Investors. A City Council-adopted policy provides that tax-supported debt should not exceed 5% of net assessed valuation of taxable property in the City. As of the end of FY 2004, outstanding tax-supported debt was 2.76% of net assessed valuation.

Detailed information on the City's long-term debt is included in Note 9 to this report.

ECONOMIC FACTORS

The City's unemployment rate for June 2004 was 6.1%, which was .6% less than the same period in FY 2003. This compares to the state's unemployment rate of 3.8% and the national average rate of 5.8% for June 2004.

The City is a regional commercial center and continues to experience modest retail sector growth and the addition of national and regional restaurant chains in its primary commercial corridor. Despite a marginal economy, the City experienced some sales and meals tax revenue growth in FY 2004.

The City continues to focus on the retention and expansion of existing businesses with limited growth in the industrial, commercial, technology, and retail sectors. Economic development initiatives include supporting the continued development of public and private industrial parks, the creation of two Technology Zones coincident with existing Enterprise Zones, and the use of various targeted incentives including subsidized land and infrastructure and cash grants. Several businesses and industries expanded facilities and operations resulting in private investments of \$26.65 million and 861 new jobs.

A number of public private redevelopment efforts are underway in the downtown business district. Altogether, nearly \$100 million in investment will be made in the period between 2001 and 2005 to renovate existing historical structures, build new facilities and improve public infrastructure, parks and streetscapes. Renovations to a historic shoe factory to provide residential condominiums, art space and retail operations in a complex called Riverviews Artspace were complete and fully leased by the end of calendar 2003. Construction continued on new lodging, dining and meeting facilities to be provided in two restored buildings known as the BluffWalk Hotel/Restaurant Center. The complex will include a forty-room boutique hotel, a conference center, a high-end restaurant, and a microbrewery. Several new loft apartment housing projects also are expected to begin construction in the next year, providing over 100 new dwelling units downtown. Additionally, cultural projects such as the Dance Theatre of Lynchburg and the opening of a portion of the Academy of Fine Arts are important for Downtown revitalization efforts. Government projects included a new \$14 million federal project under construction and expected to be completed in early 2005. The complex will house the federal courts, a post office, and other federal departments such as the U.S. Marshall Service, the Federal Bureau of Investigations (FBI), and the Internal Revenue Service (IRS). The final construction phases of the Ninth Street Corridor and Monument Terrace Grand Staircase landmark projects neared completion as the September 2004 targeted date approached. Lastly, located downtown is the City's Old Courthouse Museum and restoration is underway with completion scheduled for December 2004. A limited partnership manages this project and the utilization of state historic tax credits reduces its cost.

The business and government functions operating at the airport facility annually generate a \$13.8 million direct economic impact. After the airport's introduction of jet service to Atlanta, Georgia, by Delta Airlines during FY 2003, US Airways responded with equipment upgrades and larger planes in FY 2004. The result has been a 20% increase in passenger ticket sales.

For FY 2005, the adopted General Fund Budget included funding for a 2% compensation adjustment for City and Schools employees. Subsequently, the Lynchburg City School Board approved a 2% compensation adjustment for Schools' employees. The following tax rates and fees increased for FY 2005: 15% for personal property from \$3.30 to \$3.80 per \$100 of assessed value; 15% for the motor vehicle license fee from \$25 to \$29.50; 40% for the amusement tax from 5% to 7%; and, an 8% increase in the meals tax from 6% to 6.5%.

Although the City's Water and Solid Waste Funds achieved or exceeded City Council's financial policy targets, the Sewer Fund continued to be financially challenged to meet the targets. Adopted financial policies require rate reviews a minimum of every two years for the Water, Sewer and Solid Waste Funds. Typically, rates for the Water and Sewer Funds are reviewed annually with necessary changes implemented at the beginning of each fiscal year. For FY 2004, phasing out the block water rate structure resulted in rate increases of 4% for most customers, 9% to 10% for large commercial and industrial customers, and 10% for water connection fees. Sewer rates increases were 8.6% as a general rate increase along with a 10% increase in connection fees. Most of the sewer rate increases were directed toward continuation of the Combined Sewer Overflow (CSO) Correction Program. Based on a solid waste rate study from March 2002, the City continued to implement rates to recover the cost of the City's solid waste programs, including residential refuse collection, recycling, brush/bulk collection, and landfill disposal costs. Effective January 1, 2004, in addition to the annual decal fee of \$40.00, a \$5.00 per month disposal fee was implemented for residential and small multi-family units to cover the costs of certain "common good" services such as recycling, bulk and brush pick up, litter control, and response to illegal dumping.

REQUESTS FOR INFORMATION

This report is designed to provide a general overview of the City's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Director of Financial Services, City of Lynchburg, 900 Church Street, Lynchburg, VA. 24504; or, via telephone at 434-455-4220. This report is on the City's web site at www.lynchburgva.gov.

BASIC FINANCIAL STATEMENTS

Statement of Net Assets
June 30, 2004

	Governmental Activities	Business Type Activities	Total Primary Government	Component Units		Total Reporting Unit
				Schools	Others	
Assets						
Cash and cash equivalents	\$ 22,082,131	\$ 14,851,456	\$ 36,933,587	\$ 10,825,495	\$ 638,924	\$ 48,398,006
Investments	4,989,199	4,997,412	9,986,611	-	-	9,986,611
Receivables, net	7,092,811	4,143,077	11,235,888	108,472	665,107	12,009,467
Due from other governments	5,523,214	13,649,777	19,172,991	2,347,454	230,335	21,750,780
Internal balances	1,077,496	(1,077,496)	-	-	-	-
Due from component unit	2,194,756	-	2,194,756	-	-	2,194,756
Inventory	90,873	368,516	459,389	80,461	107,103	646,953
Prepays and other assets	3,266,875	-	3,266,875	-	48,167	3,315,042
Restricted assets:						
Cash and cash equivalents	15,297,992	4,394,635	19,692,627	-	-	19,692,627
Capital assets:						
Non-depreciable	34,920,741	24,189,182	59,109,923	-	55,031	59,164,954
Depreciable, net	206,751,276	201,870,289	408,621,565	1,696,102	4,232,227	414,549,894
Total assets	303,287,364	267,386,848	570,674,212	15,057,984	5,976,894	591,709,090
Liabilities						
Accounts payable and other liabilities	8,721,771	2,845,101	11,566,872	9,599,273	838,879	22,005,024
Accrued interest payable	937,728	769,525	1,707,253	-	-	1,707,253
Due to primary government	-	-	-	1,990,784	203,972	2,194,756
Liabilities payable from restricted assets	1,736,174	286,867	2,023,041	-	-	2,023,041
Noncurrent liabilities:						
Due within one year	8,166,304	7,739,267	15,905,571	568,006	-	16,473,577
Due in more than one year	115,562,376	120,751,033	236,313,409	1,289,893	250,000	237,853,302
Total liabilities	135,124,353	132,391,793	267,516,146	13,447,956	1,292,851	282,256,953
Net assets						
Invested in capital assets, net of related debt	135,832,636	112,022,931	247,855,567	371,723	4,283,338	252,510,628
Restricted net assets	-	-	-	-	14,382	14,382
Unrestricted	32,330,375	22,972,124	55,302,499	1,238,305	386,323	56,927,127
Total net assets	\$ 168,163,011	\$ 134,995,055	\$ 303,158,066	\$ 1,610,028	\$ 4,684,043	\$ 309,452,137

Statement of Activities
June 30, 2004

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Assets					
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government			Component Units		Total Reporting Unit
					Governmental Activities	Business-type Activities	Total	Schools	Other	
Primary government:										
Governmental activities:										
General government	\$ 9,474,943	\$ 416,760	\$ 299,368	\$ -	\$ (8,758,815)	\$ -	\$ (8,758,815)	\$ -	\$ -	\$ (8,758,815)
Education	27,680,572	-	5,252	1,318,024	(26,357,296)	-	(26,357,296)	-	-	(26,357,296)
Judicial	4,336,165	625,331	2,165,040	-	(1,545,794)	-	(1,545,794)	-	-	(1,545,794)
Health and human services	20,391,462	709,578	14,625,910	165,522	(4,890,452)	-	(4,890,452)	-	-	(4,890,452)
Public safety	33,858,886	3,124,914	3,463,255	-	(27,270,717)	-	(27,270,717)	-	-	(27,270,717)
Public works	17,638,226	209,994	7,260,504	87,190	(10,080,538)	-	(10,080,538)	-	-	(10,080,538)
Community development	10,373,473	1,097,437	5,958,921	3,816	(3,313,299)	-	(3,313,299)	-	-	(3,313,299)
Cultural and recreational	7,895,722	1,350,148	305,486	488,107	(5,751,981)	-	(5,751,981)	-	-	(5,751,981)
Interest and fees on long-term debt	3,520,381	-	-	-	(3,520,381)	-	(3,520,381)	-	-	(3,520,381)
Total governmental activities	135,169,830	7,534,162	34,083,736	2,062,659	(91,489,273)	-	(91,489,273)	-	-	(91,489,273)
Business-type activities:										
Water	8,859,383	9,001,806	-	-	-	142,423	142,423	-	-	142,423
Sewer	13,165,634	13,919,612	38,500	4,711,890	-	5,504,368	5,504,368	-	-	5,504,368
Airport	3,623,207	1,480,543	32,558	2,491,843	-	381,737	381,737	-	-	381,737
Solid Waste Management	6,902,366	6,352,423	201,836	-	-	(348,107)	(348,107)	-	-	(348,107)
Total business-type activities	32,550,590	30,754,384	272,894	7,203,733	-	5,680,421	5,680,421	-	-	5,680,421
Total primary government	\$ 167,720,420	\$ 38,288,546	\$ 34,356,630	\$ 9,266,392	(91,489,273)	5,680,421	(85,808,852)	-	-	(85,808,852)
Component units:										
Schools	\$ 74,963,406	\$ 1,646,532	\$ 45,521,886	-	-	-	-	(27,794,988)	-	(27,794,988)
Greater Lynchburg Transit Company	4,495,117	844,601	2,668,162	142,570	-	-	-	-	(839,784)	(839,784)
Business Development Center	379,797	322,678	127,436	-	-	-	-	-	70,317	70,317
Total component units	\$ 79,838,320	\$ 2,813,811	\$ 48,317,484	\$ 142,570	-	-	-	(27,794,988)	(769,467)	(28,564,455)
General revenues:										
Property taxes					47,696,680	-	47,696,680	-	-	47,696,680
Other taxes					39,000,076	-	39,000,076	-	-	39,000,076
Unrestricted intergovernmental					8,450,138	-	8,450,138	-	-	8,450,138
Interest					235,434	340,736	576,170	2,044	-	578,214
Miscellaneous					1,234,747	331,018	1,565,765	370,094	82,436	2,018,295
Gain (loss) on disposal of capital assets					(22,450)	(334,742)	(357,192)	-	2,604	(354,588)
City appropriation					-	-	-	26,005,227	-	26,005,227
Transfers					(217,924)	217,924	-	-	-	-
Total general revenues and transfers					96,376,701	554,936	96,931,637	26,377,365	85,040	123,394,042
Change in net assets					4,887,428	6,235,357	11,122,785	(1,417,623)	(684,427)	9,020,735
Net assets - beginning, as restated (Note 19)					163,275,583	128,759,698	292,035,281	3,027,651	5,368,470	300,431,402
Net assets - ending					\$ 168,163,011	\$ 134,995,055	\$ 303,158,066	\$ 1,610,028	\$ 4,684,043	\$ 309,452,137

Balance Sheet
Governmental Funds
June 30, 2004

	General	Other Governmental Funds	Total Governmental Funds
Assets			
Cash and cash equivalents	\$ 13,199,139	\$ 7,838,866	\$ 21,038,005
Cash and cash equivalents - restricted	3,950	12,991,602	12,995,552
Investments	4,989,199	-	4,989,199
Receivables:			
Taxes excluding penalties	1,473,319	-	1,473,319
Accounts	4,623,093	-	4,623,093
Other	226,817	758,189	985,006
Due from other funds	1,900,810	-	1,900,810
Due from component units	2,039,756	155,000	2,194,756
Due from other governments	3,429,758	2,093,456	5,523,214
Other assets	61,156	5,719	66,875
Total assets	\$ 31,946,997	\$ 23,842,832	\$ 55,789,829
Liabilities and fund balances			
Liabilities:			
Accounts payable	\$ 1,498,024	\$ 2,394,192	\$ 3,892,216
Accrued liabilities	3,766,118	27,378	3,793,496
Retainage payable	9,243	641,359	650,602
Due to other governments	15,008	27,995	43,003
Due to other funds	215,097	1,604,337	1,819,434
Deposits payable from restricted assets	64,720	-	64,720
Deferred revenue	2,615,345	98,417	2,713,762
Total liabilities	<u>8,183,555</u>	<u>4,793,678</u>	<u>12,977,233</u>
Fund balances:			
Reserved for:			
Encumbrances	933,133	14,416,749	15,349,882
Unreserved:			
Designated	6,084,541	-	6,084,541
Undesignated	16,745,768	-	16,745,768
Unreserved, reported in nonmajor:			
Special revenue:			
Designated	-	1,225,652	1,225,652
Undesignated	-	2,676,319	2,676,319
Capital projects:			
Designated	-	386,088	386,088
Undesignated	-	344,346	344,346
Total fund balances	<u>23,763,442</u>	<u>19,049,154</u>	<u>42,812,596</u>
Total liabilities and fund balances	\$ 31,946,997	\$ 23,842,832	\$ 55,789,829

The Notes to Financial Statements are
an integral part of this statement.

**Reconciliation of the Balance Sheet of Governmental Funds
to the Statement of Net Assets
June 30, 2004**

Amounts reported for governmental activities in the statement of net assets are different because:

Ending fund balance - governmental funds		\$ 42,812,596
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.		
Capital assets	241,672,017	
Less: Internal service capital assets	<u>(10,509,322)</u>	
		231,162,695
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.		5,913,762
Internal service funds activity that has been allocated to the user departments.		1,017,118
Internal service funds are used by management to charge the costs of vehicle maintenance to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets.		10,387,112
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.		
Bonds payable	(108,208,460)	
Accrued interest payable	(937,728)	
Capital leases payable	(8,396,221)	
Notes Payable	(3,200,000)	
Compensated absences	(3,611,323)	
Workers' compensation	<u>(233,772)</u>	
	(124,587,504)	
Add back: Internal Service bonds payable	1,425,000	
Add back: Internal Service compensated absences	<u>32,232</u>	<u>(123,130,272)</u>
Net assets of governmental activities		<u>\$ 168,163,011</u>

Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
Year Ended June 30, 2004

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues			
Taxes	\$ 85,774,800	\$ 1,006,206	\$ 86,781,006
Regulatory licenses, permits and privilege fees	738,887	-	738,887
Intergovernmental	27,295,898	15,294,846	42,590,744
Fines and forfeitures	551,716	-	551,716
Revenue from use of money and property	797,531	675,638	1,473,169
Charges for services	6,371,250	2,013,261	8,384,511
Miscellaneous	666,969	2,458,965	3,125,934
Total revenues	<u>122,197,051</u>	<u>21,448,916</u>	<u>143,645,967</u>
Expenditures			
Current:			
General government	11,960,240	170,242	12,130,482
Education	26,005,227	-	26,005,227
Judicial	3,303,952	830,554	4,134,506
Health and human services	21,317,811	5,535,871	26,853,682
Public safety	29,178,810	3,951,154	33,129,964
Public works	10,244,342	27,065	10,271,407
Community development	3,102,768	5,411,863	8,514,631
Cultural and recreational	6,427,237	1,122,557	7,549,794
Capital outlay	-	25,350,920	25,350,920
Debt service:			
Principal retirement	17,839,066	1,118,618	18,957,684
Interest payments	3,848,634	568,730	4,417,364
Total expenditures	<u>133,228,087</u>	<u>44,087,574</u>	<u>177,315,661</u>
Excess (deficiency) of revenues over expenditures	<u>(11,031,036)</u>	<u>(22,638,658)</u>	<u>(33,669,694)</u>
Other financing sources (uses)			
Proceeds from debt issues	19,063,115	28,171,783	47,234,898
Transfers in	927,197	5,929,951	6,857,148
Transfers out	(7,065,218)	(1,479,443)	(8,544,661)
Total other financing sources	<u>12,925,094</u>	<u>32,622,291</u>	<u>45,547,385</u>
Net change in fund balances	<u>1,894,058</u>	<u>9,983,633</u>	<u>11,877,691</u>
Fund balance - beginning, as restated (Note 19)	<u>21,869,384</u>	<u>9,065,521</u>	<u>30,934,905</u>
Fund balance - ending	<u>\$ 23,763,442</u>	<u>\$ 19,049,154</u>	<u>\$ 42,812,596</u>

The Notes to Financial Statements are
an integral part of this statement.

**Reconciliation of the Statement of Revenues, Expenditures, and Changes
in Fund Balance to the Statement of Activities
Year Ended June 30, 2004**

Amounts reported for governmental activities in the statement of activities are different because:

Net change in fund balances - total governmental funds \$ 11,877,691

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the detail of the two components.

Capital outlay	29,612,885
Depreciation expense	(9,632,868)

The net effect of various miscellaneous transactions involving capital assets (sales, reduction in construction in progress) is to decrease net assets. (112,054)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. (280,602)

The issuance of long-term debt (e.g. bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related accounts. (28,061,016)

Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds. 652,090

To eliminate transfers to the internal service fund 1,469,589

The net loss of certain activities of the internal service fund is reported with governmental activities. (638,287)

Change in net assets of governmental activities. \$ 4,887,428

Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual
General Fund
Year Ended June 30, 2004

	Budgeted Amounts		Actual	Variance with Final Budget - Positive (Negative)
	Original	Final		
Revenues				
Taxes	\$ 83,877,689	\$ 83,852,167	\$ 85,774,800	\$ 1,922,633
Regulatory licenses, permits and privilege fees	788,365	841,101	738,887	(102,214)
Intergovernmental	25,495,303	26,915,822	27,295,898	380,076
Fines and forfeitures	550,000	550,000	551,716	1,716
Revenue from use of money and property	1,151,192	1,125,904	797,531	(328,373)
Charges for services	3,647,557	7,181,557	6,371,250	(810,307)
Miscellaneous	3,180,792	575,564	666,969	91,405
Total revenues	118,690,898	121,042,115	122,197,051	1,154,936
Expenditures				
Current:				
General government	11,598,420	12,772,525	11,960,240	812,285
Education	-	27,996,011	26,005,227	1,990,784
Judicial	3,276,242	3,360,758	3,303,952	56,806
Health and human services	14,694,965	22,330,896	21,317,811	1,013,085
Public safety	28,942,241	29,786,285	29,178,810	607,475
Public works	10,569,574	10,623,923	10,244,342	379,581
Community development	2,608,548	3,148,539	3,102,768	45,771
Cultural and recreational	6,861,823	6,946,999	6,427,237	519,762
Debt service:				
Principal retirement	5,444,687	17,671,133	17,839,066	(167,933)
Interest payments	4,007,472	4,022,127	3,848,634	173,493
Total expenditures	88,003,972	138,659,196	133,228,087	5,431,109
Excess (deficiency) of revenues over (under) expenditures	30,686,926	(17,617,081)	(11,031,036)	(4,276,173)
Other financing sources (uses)				
Proceeds from debt issues	-	19,068,998	19,063,115	(5,883)
Transfers in	1,605,108	797,361	927,197	129,836
Transfers out	(33,667,944)	(7,111,701)	(7,065,218)	46,483
Total other financing sources (uses)	(32,062,836)	12,754,658	12,925,094	170,436
Net change in fund balances	(1,375,910)	(4,862,423)	1,894,058	6,756,481
Fund balance - beginning, as restated (Note 19)	21,869,384	21,869,384	21,869,384	-
Fund balance - ending	\$ 20,493,474	\$ 17,006,961	\$ 23,763,442	\$ 6,756,481

Statement of Net Assets
Proprietary Funds
June 30, 2004

	Enterprise Funds					Internal Service Fund
	Water Fund	Sewer Fund	Airport Fund	Solid Waste Management Fund	Total	
Assets						
Current assets						
Cash and cash equivalents	\$ 5,222,146	\$ 3,843,401	\$ 771,529	\$ 5,014,380	\$ 14,851,456	\$ 989,027
Investments	1,000,418	1,000,418	-	2,996,576	4,997,412	-
Receivables (net of allowance for doubtful accounts):						
Accounts	1,154,872	1,810,418	40,485	812,844	3,818,619	10,333
Other	83,210	113,988	127,260	-	324,458	1,060
Due from other funds	215,097	-	-	-	215,097	-
Due from other governments	-	7,755,271	676,660	-	8,431,931	-
Inventory	368,516	-	-	-	368,516	90,873
Due from members - Regional Sewage Treatment Plant	-	635,100	-	-	635,100	-
Total current assets	8,044,259	15,158,596	1,615,934	8,823,800	33,642,589	1,091,293
Noncurrent assets						
Due from members - Regional Sewage Treatment Plant	-	4,582,746	-	-	4,582,746	-
Restricted cash and cash equivalents	2,730,297	1,664,338	-	-	4,394,635	684,199
Capital assets, net	45,861,301	145,984,875	24,907,606	9,305,689	226,059,471	10,509,322
	48,591,598	152,231,959	24,907,606	9,305,689	235,036,852	11,193,521
Total noncurrent assets						
Total assets	56,635,857	167,390,555	26,523,540	18,129,489	268,679,441	12,284,814
Liabilities and net assets						
Current liabilities						
Accounts payable	750,212	958,947	582,051	137,604	2,428,814	400,517
Accrued liabilities	500,540	495,942	97,532	186,564	1,280,578	51,186
Retainage payable	53,013	230,419	111,461	-	394,893	-
Due to other funds	107,584	67,665	34,352	65,873	275,474	20,999
Due to other governments	3,160	100	-	371	3,631	-
Current portion of general obligation bonds payable	1,492,883	2,282,136	331,185	1,157,612	5,263,816	120,000
Current portion of public utility revenue bonds payable	-	2,326,434	-	-	2,326,434	-
Current portion of landfill closure liability	-	-	-	79,817	79,817	-
Total current liabilities	2,907,392	6,361,643	1,156,581	1,627,841	12,053,457	592,702
Noncurrent liabilities						
Deposits payable from restricted assets	286,867	-	-	-	286,867	-
General obligation bonds payable	22,462,254	30,006,328	2,344,482	6,112,552	60,925,616	1,305,000
Public utility revenue bonds payable	-	56,825,959	-	-	56,825,959	-
Landfill closure liability	-	-	-	2,575,369	2,575,369	-
Total noncurrent liabilities	22,749,121	86,832,287	2,344,482	8,687,921	120,613,811	1,305,000
Total liabilities	25,656,513	93,193,930	3,501,063	10,315,762	132,667,268	1,897,702
Net assets						
Investment in capital assets, net of related debt	24,348,833	63,406,634	22,231,939	2,035,525	112,022,931	9,767,020
Unrestricted	6,630,511	10,789,991	790,538	5,778,202	23,989,242	620,092
Total net assets	\$ 30,979,344	\$ 74,196,625	\$ 23,022,477	\$ 7,813,727	136,012,173	\$ 10,387,112
Reconciliation with business type activities in the statement of net assets:						
Internal service fund activity is eliminated for the statement of activities, with residual activity allocated to user departments					(1,017,118)	
Total net assets of business type activities					\$ 134,995,055	

Statement of Revenues, Expenses, and Changes in Fund Net Assets
 Proprietary Funds
 Year Ended June 30, 2004

	Enterprise Funds					Internal Service Fund
	Water	Sewer	Airport	Solid Waste Management	Total	
Operating revenues						
Charges for services and other operating revenues	\$ 9,001,806	\$ 13,919,612	\$ 1,480,514	\$ 6,352,423	\$ 30,754,355	\$ 1,791,287
Intergovernmental	-	-	32,588	-	32,588	-
Total operating revenues	9,001,806	13,919,612	1,513,102	6,352,423	30,786,943	1,791,287
Operating expenses						
Operations	3,623,976	3,704,588	1,072,809	4,882,140	13,283,513	1,684,744
Landfill closure and postclosure care	-	-	-	348,643	348,643	-
Administration	2,129,563	858,727	558,515	67,791	3,614,596	13,881
Maintenance and repairs	128,498	2,045,283	593,042	-	2,766,823	-
Depreciation	1,952,385	3,662,382	1,492,120	905,666	8,012,553	1,407,056
Total operating expenses	7,834,422	10,270,980	3,716,486	6,204,240	28,026,128	3,105,681
Operating income (loss)	1,167,384	3,648,632	(2,203,384)	148,183	2,760,815	(1,314,394)
Nonoperating revenue (expense)						
Interest income (net of interest capitalized)	57,640	200,511	5,487	77,098	340,736	4,147
Governmental grants	-	38,500	-	201,836	240,336	-
Passenger facility charges	-	-	230,179	-	230,179	-
Miscellaneous	17,052	103,553	96,961	113,451	331,017	175,244
Gain (loss) on disposition of assets	(238,743)	2,080	(2,203)	(95,876)	(334,742)	31,935
Interest and other fiscal charges (net of interest capitalized)	(971,932)	(2,818,973)	(120,904)	(327,127)	(4,238,936)	(50,924)
Total nonoperating revenue (expense)	(1,135,983)	(2,474,329)	209,520	(30,618)	(3,431,410)	160,402
Income (loss) before transfers and contributions	31,401	1,174,303	(1,993,864)	117,565	(670,595)	(1,153,992)
Transfers in	-	-	490,831	848,637	1,339,468	1,469,589
Transfers out	(161,000)	(396,189)	-	(564,355)	(1,121,544)	-
Capital contributions	-	4,711,890	2,491,843	-	7,203,733	-
Change in net assets	(129,599)	5,490,004	988,810	401,847	6,751,062	315,597
Total net assets - beginning, as restated (Note 19)	31,108,943	68,706,621	22,033,667	7,411,880	129,261,111	10,071,515
Total net assets - ending	<u>\$ 30,979,344</u>	<u>\$ 74,196,625</u>	<u>\$ 23,022,477</u>	<u>\$ 7,813,727</u>	<u>\$ 136,012,173</u>	<u>\$ 10,387,112</u>
Reconciliation with business type activities in the statement of activities:						
Change in net assets - enterprise funds reported in this statement					\$ 6,751,062	
Internal service fund activity is eliminated for the statement of activities, with residual activity allocated to user departments					(515,705)	
Change in net assets of business type activities					<u>\$ 6,235,357</u>	

Statement of Cash Flows
Proprietary Funds
Year Ended June 30, 2004

	Enterprise Funds					Internal Service
	Water	Sewer	Airport	Solid Waste Management	Total	
OPERATING ACTIVITIES						
Cash received from operations	\$ 9,575,239	\$ 13,721,237	\$ 1,530,495	\$ 6,257,921	\$ 31,084,892	\$ 1,788,907
Cash paid to employees	(2,615,667)	(1,720,879)	(872,727)	(1,760,687)	(6,969,960)	(564,165)
Cash paid to suppliers	(2,882,102)	(4,603,284)	(807,540)	(3,182,406)	(11,475,332)	(1,142,384)
Net cash provided from (used in) operating activities	4,077,470	7,397,074	(149,772)	1,314,828	12,639,600	82,358
NONCAPITAL FINANCING ACTIVITIES						
Transfers to other funds	(161,000)	(396,189)	-	(527,855)	(1,085,044)	-
Transfers from other funds	126,044	-	490,831	812,137	1,429,012	1,469,589
Net cash provided from (used in) noncapital financing activities	(34,956)	(396,189)	490,831	284,282	343,968	1,469,589
CAPITAL AND RELATED FINANCING ACTIVITIES						
Proceeds from issuance of long-term debt:						
General obligation bonds	4,015,000	3,110,000	-	-	7,125,000	325,000
Payment of long-term debt:						
General obligation bonds	(1,226,503)	(1,775,308)	(314,730)	(1,052,949)	(4,369,490)	(95,000)
Revenue bonds	-	(2,320,353)	-	-	(2,320,353)	-
Drawdowns of public utility revenue bonds - revolving loan funds	-	1,301,138	-	-	1,301,138	-
Payment of interest on long-term debt	(957,319)	(1,860,217)	(126,312)	(335,687)	(3,279,535)	(36,212)
Capital contributions received	-	4,838,470	1,875,690	-	6,714,160	-
Intergovernmental grants	-	38,500	-	201,836	240,336	-
Passenger Facility charges collected	-	-	230,179	-	230,179	-
Proceeds from sale of capital assets	-	-	-	-	-	133,270
Additions to capital assets	(3,324,002)	(8,861,576)	(1,993,152)	(575,306)	(14,754,036)	(2,723,732)
Net purchase of investments	(1,000,418)	(1,000,418)	-	(2,996,576)	(4,997,412)	-
Proceeds from (payments to) other organizations	(23,517)	82,816	5,988	113,451	178,738	174,184
Net cash provided from (used in) capital and related financing activities	(2,516,759)	(6,446,948)	(322,337)	(4,645,231)	(13,931,275)	(2,222,490)
INVESTING ACTIVITIES						
Interest income received	57,640	200,511	5,487	77,098	340,736	4,147
Net cash provided from investing activities	57,640	200,511	5,487	77,098	340,736	4,147
Net increase (decrease) in cash and cash equivalents	1,583,395	754,448	24,209	(2,969,023)	(606,971)	(666,396)
CASH AND CASH EQUIVALENTS						
Beginning	6,369,048	4,753,291	747,320	7,983,403	19,853,062	2,339,622
Ending	\$ 7,952,443	\$ 5,507,739	\$ 771,529	\$ 5,014,380	\$ 19,246,091	\$ 1,673,226
Current Assets	\$ 5,222,146	\$ 3,843,401	\$ 771,529	\$ 5,014,380	\$ 14,851,456	\$ 989,027
Restricted Assets	2,730,297	1,664,338	-	-	4,394,635	684,199
	\$ 7,952,443	\$ 5,507,739	\$ 771,529	\$ 5,014,380	\$ 19,246,091	\$ 1,673,226

Statement of Cash Flows
Proprietary Funds
Year Ended June 30, 2004

	Enterprise Funds					Internal Service
	Water	Sewer	Airport	Solid Waste Management	Total	
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED FROM (USED IN) OPERATING ACTIVITIES						
Operating income (loss)	\$ 1,167,384	\$ 3,648,632	\$ (2,203,384)	\$ 148,183	\$ 2,760,815	\$ (1,314,394)
Adjustments to reconcile operating income (loss) to net cash provided from (used in) operating activities:						
Depreciation	1,952,385	3,662,382	1,492,120	905,666	8,012,553	1,407,056
Amortization of debt related items	27,944	42,567	3,667	21,466	95,644	-
Landfill closure and postclosure cost	-	-	-	348,643	348,643	-
Changes in assets and liabilities:						
(Increase) decrease in accounts receivable	573,433	(198,375)	17,394	(94,502)	297,950	(2,380)
Decrease in inventory	41,781	-	-	-	41,781	(834)
Increase (decrease) in trade accounts payable	244,000	278,649	531,319	(25,911)	1,028,057	(11,374)
Increase (decrease) in accrued expenses	17,738	(104,546)	(25,240)	(54,961)	(167,009)	(16,715)
Increase in due to other funds	107,584	67,665	34,352	65,873	275,474	20,999
Increase (decrease) in due to other governments	(1,583)	100	-	371	(1,112)	-
Increase (decrease) in deposits payable	(53,196)	-	-	-	(53,196)	-
Net cash provided from (used in) operating activities	<u>\$ 4,077,470</u>	<u>\$ 7,397,074</u>	<u>\$ (149,772)</u>	<u>\$ 1,314,828</u>	<u>\$ 12,639,600</u>	<u>\$ 82,358</u>
SUPPLEMENTAL CASH FLOW INFORMATION						
NON-CASH TRANSACTIONS						
Discount adjustment on due from members - Regional Sewage Treatment Plant	\$ -	\$ 969,929	\$ -	\$ -	\$ 969,929	\$ -
Capitalized interest	29,502	38,112	-	-	67,614	-
Amortization/accretion of discounts and premiums on general obligation bonds	27,944	42,567	3,668	21,466	95,645	-
Capital asset additions financed by retainage payable	53,013	230,419	111,461	-	394,893	-

Statement of Fiduciary Net Assets
Agency Funds
June 30, 2004

Assets

Cash and cash equivalents

\$ 1,733,306

Liabilities

Amounts held for others

1,733,306

Net Assets

\$ -

CITY OF LYNCHBURG, VIRGINIA

Notes to Financial Statements
As of June 30, 2004

Note 1. Summary of Significant Accounting Policies

A. Financial Reporting Entity

The City of Lynchburg, Virginia (the "City") was founded by John Lynch in 1757, chartered as a town in 1786, and incorporated in 1805. The City operates on a Council-Manager form of Government and provides all municipal services to its residents. As required by accounting principles generally accepted in the United States of America, the financial statements of the reporting entity include those of the City (the primary government) and its component units. The component units discussed below are included in the City's reporting entity because of the significance of their operational or financial relationships with the City.

Discretely Presented Component Units: The component units' columns in the combined financial statements include the data of the City's three component units. They are reported in separate columns to emphasize that they are legally separate from the City. The governing bodies of these component units are appointed by City Council.

Lynchburg City Schools: The Lynchburg City Schools (the "Schools") operates one pre-school, eleven elementary, three middle and the two high schools in the City. The Schools are fiscally dependent on the City because the Schools' operational and capital budgets are approved by City Council. In addition, the Schools are prohibited from issuing bonded debt without approval of City Council.

Business Development Centre, Inc.: The Business Development Centre, Inc. (the "Centre") provides business advisory services to small businesses in the Central Virginia area, operates a business incubator, and provides financing for qualifying businesses under certain federal programs. The City provides financial support to the Centre by leasing to the Centre, at a nominal amount, the facility which houses the Centre's operations. The City has agreed to advance operating funds to the Centre to cover working capital needs.

Greater Lynchburg Transit Company: The Greater Lynchburg Transit Company ("GLTC") provides mass transit services to the area. The City provides financial support to GLTC through the assumption of the obligation to finance GLTC's deficits.

Complete financial statements of the individual component units can be obtained directly from their administrative offices at the addresses listed below. The Lynchburg City Schools financial statements are not separately prepared but are included in this financial report.

Business Development Centre, Inc.
147 Mill Ridge Road
Lynchburg, Virginia 24502

Greater Lynchburg Transit Company
Post Office Box 797
Lynchburg, Virginia 24505-0797

CITY OF LYNCHBURG, VIRGINIA

Notes to Financial Statements
As of June 30, 2004

Note 1. Summary of Significant Accounting Policies (Continued)

A. Financial Reporting Entity (Continued)

Jointly Governed Organizations: The following entities are excluded from the accompanying financial statements:

Blue Ridge Regional Jail Authority: The Blue Ridge Regional Jail Authority (the "Authority") was created by certain Member Jurisdictions for the purpose of developing and operating a regional jail system to be established by acquiring, renovating and expanding certain existing jail facilities and constructing additional jail facilities. The Member Jurisdictions are the Cities of Lynchburg and Bedford and the Counties of Halifax, Bedford, and Campbell. The Authority began operating the existing jail facilities in the Member Jurisdiction on July 1, 1998.

The City sold its existing jail facilities to the Authority during FY 1997. A new central jail facility was constructed in Lynchburg and opened in FY 2000. It is owned and operated by the Authority. Each Member Jurisdiction pays a per diem charge for each day that one of its prisoners is at any Regional Jail Facility. In accordance with the Service Agreement, the Authority has divided the per diem charge into an operating component and a debt service component. The per diem charge is based on an agreed upon number of prisoner days, and is subject to an adjustment at the end of each fiscal year. During the year ended June 30, 2004, the City paid \$3,599,119 to the Authority.

Central Virginia Community Services Board: The City, in conjunction with the counties of Amherst, Appomattox, Bedford and Campbell and the City of Bedford participate in the Central Virginia Community Services Board, which is composed of two members from each of the participating localities. The City appropriated \$425,453 for an operating contribution to the Central Virginia Community Services Board for the year ended June 30, 2004.

Joint Venture: The City participates in an intergovernmental agreement with the Counties of Amherst and Bedford and the City of Bedford for the operation of a regional radio communication system. The Central Virginia Regional Radio Communications Board is responsible for overseeing the management, operation and administration of the system. The project was financed by lease revenue bonds of the Industrial Development Authority of Amherst County and the City of Bedford (in the amount of \$9,931,000 with interest at 5.72%), and the leasing of the project to the participating jurisdictions. Each participating jurisdiction maintains a leasehold interest in the project and shares costs of operation and maintenance equal to the jurisdiction's payment percentage as defined in the agreement. The City's participating interest is 33.10%. Future minimum lease payments in the amount of \$1,963,859 are included in the Governmental Activities Noncurrent Liabilities. An asset in the amount of \$1,993,536 is shown in the Governmental Activity Capital Assets, net of accumulated depreciation. Separate financial statements of this joint venture are not available.

Related Organizations: The following entities are excluded from the accompanying financial statements:

Lynchburg Redevelopment and Housing Authority: Under the Code of Virginia ("Code"), the Commonwealth of Virginia ("Commonwealth") created in each city and county a redevelopment and housing authority which is a separate political subdivision of the Commonwealth. Under a resolution approved in April 1956, City Council declared a need for a housing authority in the City, activating the Lynchburg Redevelopment and Housing Authority (the "LRHA"). The LRHA owns and operates federal and state-assisted housing projects for low-income families and administers urban development projects. Commissioners of the LRHA are appointed by City Council; however, City Council is not financially accountable for LRHA. During 2004, the City provided \$309,619 to the LRHA from the Community Development Block Grant fund.

CITY OF LYNCHBURG, VIRGINIA

Notes to Financial Statements
As of June 30, 2004

Note 1. Summary of Significant Accounting Policies (Continued)

A. Financial Reporting Entity (Continued)

Industrial Development Authority of the City of Lynchburg: Under the Code of Virginia, City Council passed an ordinance on March 14, 1967, which created the Industrial Development Authority of the City of Lynchburg (the "IDA"). The IDA was established to promote industry and develop trade within the City. The IDA is governed by a board of seven directors appointed by City Council; however, City Council is not financially accountable for the IDA.

Other Boards and Commissions: City Council appoints certain members of various boards and commissions' governing bodies as provided under state and local laws and ordinances. The boards and commissions are advisory in nature and City Council is not financially accountable for these organizations.

B. Basis of Presentation

The accompanying financial statements present the government and its component units legally separate entities for which the City is financially accountable. As permitted in Section P80 of GASB's Codification of Governmental Accounting and Financial Reporting Standards, the City has elected not to apply to its enterprise funds Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee of Accounting Procedure issued after November 30, 1989.

Government-wide Statements: The statement of net assets and the statement of activities report information on all of the nonfiduciary activities of the primary government and its component units. These statements include the financial activities of the overall government. Eliminations have been made to minimize the double counting of internal activities. These statements distinguish between the *governmental and business-type activities* of the City. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties.

The statement of activities presents a comparison between direct expenses and program revenues for the different business-type activities of the City and for each function of the City's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Indirect expense allocations that have been made in the funds have been reversed for the statement of activities. Program revenues include (a) fees and charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

Fund Financial Statements: The accounts of the City are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures or expenses, as appropriate. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are spent and the means by which spending activities are controlled. The various fund categories and fund types presented in the financial statements are described below:

Governmental Fund Types:

General Fund: The General Fund is the general operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund.

CITY OF LYNCHBURG, VIRGINIA

Notes to Financial Statements
As of June 30, 2004

Note 1. Summary of Significant Accounting Policies (Continued)

B. Basis of Presentation (Continued)

Special Revenue Funds: Special Revenue Funds are used to account for the proceeds of specific revenue, other than major capital projects, that are legally restricted to expenditures for specified purposes. These funds consist of the City Federal/State Aid Projects, Community Development Block Grant, Title XX Grant, Museum System, Lynchburg Business Development Centre, Detention Home, Law Library, Recycling Program, Forfeited Assets, Lynchburg Expressway Appearance, Comprehensive Services Act, E-911, Home Investment Trust, Partners in Emergency Response, Technology and City Stadium.

Capital Projects Funds: Capital Projects Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities, other than those financed by proprietary funds. This fund consists of the City Capital Projects Fund, Highway Projects Grant Fund, and School Capital Projects Fund.

Proprietary Fund Types:

Enterprise Funds: Enterprise funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expense incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes. These funds consist of the Water, Sewer, Solid Waste Management, and Airport Funds.

The total enterprise funds columns in the proprietary fund statement of net assets and activities are essentially equal to the business-type activity column in the government wide statements, with the exception of the impact of allocating internal service fund activity. For fiscal year 2004, the allocation of internal service fund activity reduced total net assets by \$1,017,118.

Internal Service Funds: Internal Service Funds are used to account for the financing of goods and services supplied to other funds of the City on a cost-reimbursement basis. A fleet management fund has been established to account for the operation and maintenance of City vehicles.

Fiduciary Fund Types:

Agency Funds: Agency Funds are used to account for assets held by the City as an agent or custodian for others. Agency Funds are custodial in nature (assets equal liabilities) and do not involve the measurement of results of operations. These funds consist of the Special Welfare and Central Virginia Regional Radio Board Funds.

C. Measurement Focus and Basis of Accounting

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

CITY OF LYNCHBURG, VIRGINIA

Notes to Financial Statements
As of June 30, 2004

Note 1. Summary of Significant Accounting Policies (Continued)

C. Measurement Focus and Basis of Accounting (Continued)

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both “measurable” and “available.” Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 45 days of the end of the current fiscal period for most revenues. Reimbursement basis grants are recognized as revenue when all eligibility requirements are met. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Intergovernmental revenues, consisting principally of categorical aid from federal and state agencies, are recognized when earned or at the time of the specific expenditure. Sales and public utility taxes, which are collected by the Commonwealth of Virginia and public utilities, respectively, and subsequently remitted to the City, are recognized as revenues and receivables when measurable and available.

Expenditures in governmental funds are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred. The exceptions to this general rule are principal and interest on general long-term debt, which are recognized when due.

Proprietary fund types utilize the accrual basis of accounting. Revenues are recognized when earned, including unbilled utility receivables and expenses are recognized when incurred. Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund’s principal ongoing operations. The principal operating revenues of the enterprise fund and of the City’s internal service funds are charges to customers for sales and services. The City also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for enterprise funds and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Agency funds are unlike all other types of funds, reporting only assets and liabilities; therefore, agency funds do not have a measurement focus. The agency fund utilizes the accrual basis of accounting to recognize receivables and payables.

The City reports one major governmental fund, the *General Fund*.

The City reports the following major proprietary funds: The *Water Fund*, *Sewer Fund*, *Airport Fund* and *Solid Waste Management Fund*.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

When both restricted and unrestricted resources are available for use, it is the City’s policy to use restricted resources first, then unrestricted resources as they are needed.

CITY OF LYNCHBURG, VIRGINIA

Notes to Financial Statements
As of June 30, 2004

Note 1. Summary of Significant Accounting Policies (Continued)

D. Budgets and Budgetary Accounting

The City follows these procedures in establishing the budgetary data reflected in the financial statements:

- 1) On or before April 15, the City Manager submits to City Council a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them.
- 2) Public hearings are conducted to obtain taxpayer comments.
- 3) Prior to June 30, the budget is legally enacted through passage of an appropriations resolution.
- 4) The City Manager is authorized to transfer budget amounts between departments within any fund; however, any revisions that alter the total budget amounts and/or appropriations of any fund must be approved by City Council. City Council approved additional appropriations of \$24,098,981 during the fiscal year ended June 30 primarily for local match for various grants, human services programs, and additional operating expenditures. It also includes a carryforward of unexpended prior year appropriations for continuing programs. The Superintendent of the Schools is authorized to transfer budget amounts within departments; however, any revisions that alter total budget amounts of any department must be approved by the School Board.
- 5) Formal budgetary integration is employed as a management control device during the year for all funds.
- 6) Budgets for the General Fund and the Capital Projects Funds are prepared in accordance with management's and the City Attorney's interpretation of the City Charter, which is principally the cash basis of accounting. Encumbrances are treated as a reservation of fund equity and reappropriated in the next fiscal year. Further, certain revenues, expenditures, and operating transfers related to internal service type functions are not included for budget purposes. The budget for the Lynchburg City Schools (School Operating Special Revenue Fund) is prepared on cash basis of accounting.

Project budgets are utilized in the Capital Projects Funds. All General Fund appropriations which are not encumbered lapse at year end. Appropriations for the Capital Projects Funds are continued until completion of applicable projects, even when projects extend for more than one fiscal year, or until repealed.

E. Cash and Cash Equivalents

The City considers all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased to be cash equivalents.

F. Equity in Cash and Cash Equivalents

Cash received by the City is deposited in various bank accounts. Monies (equity in cash and cash equivalents) for all funds controlled by the City, including funds of the Schools, are deposited in a group of bank accounts or used to purchase temporary investments. Restricted cash and temporary cash investments of the General Fund and Enterprise Funds include certain deposits, unexpended bond proceeds and amounts related to the Passenger Facility Charge Program at the Lynchburg Regional Airport.

G. Investments

Investments are stated at fair value. Interest earned by certain funds of the Schools is allocated to the General Fund. All other interest is allocated to the fund which owns the underlying investments.

CITY OF LYNCHBURG, VIRGINIA

Notes to Financial Statements
As of June 30, 2004

Note 1. Summary of Significant Accounting Policies (Continued)

H. Receivables

Receivables are presented net of allowance for doubtful accounts, as follows:

General Fund	\$	1,940,146
Enterprise Funds	\$	324,515

I. Inventory

Governmental fund inventories consist of major items held for consumption. Inventories are valued at cost using the first-in, first-out ("FIFO") method. Disbursements for inventory type items are considered to be expenditures at the time of use ("consumption method" of accounting). Supplies transferred to and consumed by the individual departments are considered a reduction of inventory and an expenditure of the user department.

Inventory in the Enterprise Funds is valued at cost using the first-in, first-out (FIFO) method. This inventory consists principally of spare parts held for consumption. The cost of these spare parts is recorded as an expense at the time individual inventory items are withdrawn for use.

J. Capital Assets

Governmental funds: Capital outlays are recorded as expenditures on the governmental fund financial statements and as assets on the government-wide financial statements to the extent the City's capitalization threshold of \$5,000 is met. Infrastructure has been capitalized retroactively to 1980. The City depreciates capital assets using the straight-line method over their estimated useful lives as follows:

<u>Assets</u>	<u>Years</u>
Land improvements	15-20
Buildings and improvements:	
New construction	30-40
Improvements	15-20
Infrastructure	30-50
Machinery and equipment	5-10

All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated assets are valued at their fair market value on the date donated. Works of art, historical treasures and similar assets have not been capitalized.

Proprietary Fund Types: Capital outlays of the proprietary funds are recorded as capital assets on both the fund basis and the government-wide basis. Capital assets are stated at cost or estimated original cost based on independent consultant studies, net of accumulated depreciation. Donated capital assets are recorded at their fair value at the date of receipt. Repairs and maintenance are charged to expense when incurred. When capital assets are sold or retired, the cost of the assets and the related accumulated depreciation are eliminated and a gain or loss is recognized. Depreciation has been provided over the estimated useful lives using the straight-line method. Depreciation rates range from 2% to 33%.

The City follows the policy of capitalizing, during the period of construction, the net interest costs on funds borrowed to finance the construction of proprietary capital assets. During 2004, the enterprise funds incurred interest costs of \$4,306,550 of which \$67,614 was capitalized.

CITY OF LYNCHBURG, VIRGINIA

Notes to Financial Statements
As of June 30, 2004

Note 1. Summary of Significant Accounting Policies (Continued)

K. Deferred Revenue

Deferred revenue consists primarily of property taxes and other receivables not collected within 45 days of year-end.

L. Vacation Pay Liability

City employees accumulate vacation time depending upon their length of service up to a total of 288 hours. All outstanding vacation time is payable upon termination of employment. The current portions are not recorded as liabilities in the governmental fund financial statements until they have matured as a result of employee resignations and retirements. In proprietary funds, both the expenses and the liabilities are recorded as benefits are earned. All vacation pay is accrued when incurred in the government-wide financial statements. Each operating fund is responsible for covering its share of vacation pay liability.

M. Arbitrage Rebate Liability

The U.S. Treasury has issued regulations on calculating the rebate due the Federal government on arbitrage profits and determining compliance with the arbitrage rebate provisions of the Tax Reform Act of 1986. Arbitrage profits arise when the City temporarily invests the proceeds of tax exempt debt in securities with higher yields. The City treats the estimated rebate payable as a reduction of available financial resources in the fund that earned the arbitrage profit. Accordingly, interest earnings are reduced by the amount of the increase in the estimated rebate payable and a liability is reported in the appropriate fund. At June 30, 2004, there was no arbitrage rebate liability.

N. Interfund Transactions

During the course of normal business operations the City has numerous transactions between funds, including expenditures and transfers of resources to provide services, construct assets, or satisfy certain obligations. These transactions are generally reflected as transfers. Subsidies between funds are recorded as transfers.

O. Estimates

Management uses estimates and assumptions in preparing its financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent liabilities and reported revenues, expenditures and expenses. Actual results could differ.

P. Net Assets/Fund Equity

Net Assets in government-wide and proprietary financial statements are classified as invested in capital assets, net of related debt; restricted; and unrestricted. Restricted net assets represent constraints on resources that are either externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or imposed by law through state statute.

In the fund financial statements, City funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

CITY OF LYNCHBURG, VIRGINIA

Notes to Financial Statements
As of June 30, 2004

Note 2. Cash and Investments

Deposits:

At June 30, 2004, the carrying value of the City's deposits with banks was \$(4,122,816) and the bank balance was \$905,112 all of which was covered by the Federal Depository Insurance Corporation ("FDIC") or insured in accordance with the Virginia Security for Public Deposits Act (the "Act"). Under the Act, banks holding public deposits in excess of the amounts insured by FDIC must pledge collateral in the amount of 50% of excess deposits to a collateral pool in the name of the State Treasury Board. Savings and loan institutions are required to collateralize 100% of deposits in excess of FDIC limits. The State Treasury Board is responsible for monitoring compliance with the collateralization and reporting requirements of the Act and for notifying local governments of compliance by banks and savings and loans.

The carrying amount of deposits of the Lynchburg City Schools, a discretely presented component unit at June 30, 2004 was \$66,714 and the bank balance was \$180,070.

Investments:

Statutes authorize local governments and other public bodies to invest in obligations of the United States or agencies thereof, obligations of the Commonwealth of Virginia or political subdivisions thereof, obligations of the International Bank for Reconstruction and Development (World Bank), the Asian Development Bank, the African Development Bank, "prime quality" commercial paper and certain corporate notes, banker's acceptances, repurchase agreements and the State Treasurer's Local Government Investment Pool.

The City's investments are categorized below to give an indication of the level of risk assumed by the entity at year end. Category 1 includes investments that are insured or registered or for which the securities are held by the City or its safekeeping agent in the City's name. Category 2 includes uninsured or unregistered investments for which the securities are held by the counterparty's trust department or safekeeping agent in the City's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty or by its trust department or safekeeping agent, but not in the City's name.

The City invests in an externally managed investment pool, LGIP, which is not SEC-registered. Pursuant to Sec. 2.1-234.7 of the Code of Virginia, the Treasury Board of the Commonwealth sponsors the LGIP and has delegated certain functions to the State Treasurer. The LGIP reports to the Treasury Board at their regularly scheduled monthly meetings, and the fair value of the position in the LGIP is the same as the value of the pool shares.

At June 30, the City's investment balances were as follows:

	Category			Fair Value
	1	2	3	
Repurchase agreements	\$ 6,931,000	\$ -	\$ -	\$ 6,931,000
State Street investment pool	10,495,230	-	-	10,495,230
Suntrust Central Virginia Regional Radio Investments (City ownership)	328,716	-	-	328,716
Suntrust Central Virginia Regional Radio Investments (City as fiscal agent)	1,513,584	-	-	1,513,584
Investments not subject to categorization:				
Investment in State Treasurer's Local Government Investment Pool (LGIP)				33,716,527
Money market funds – Commonwealth Cash Reserve Fund (AIM)				17,787,520
				<u>\$ 70,772,577</u>

CITY OF LYNCHBURG, VIRGINIA

Notes to Financial Statements
As of June 30, 2004

Note 2. Cash and Investments (Continued)

Investments: (Continued)

At June 30, the Schools' investment balances were as follows:

Investments not subject to categorization:

Greater Lynchburg Community Trust Mutual Funds	\$	89,029
Investment in State Treasurer's Local Government Investment Pool ("LGIP")		<u>10,758,281</u>
	\$	<u><u>10,847,310</u></u>

	<u>Primary Government</u>	<u>School Board Component Unit</u>
Cash and deposits:		
Cash on hand	\$ 23,030	\$ 500
Deposits	(4,122,816)	66,714
Investments	<u>70,772,577</u>	<u>10,847,310</u>
	<u><u>\$ 66,672,791</u></u>	<u><u>\$ 10,914,524</u></u>
Statement of Net Assets		
Cash and cash equivalents and investments	\$ 46,920,198	\$ 10,825,495
Restricted cash and cash equivalents restricted for:		
Capital projects	17,732,420	-
Customer utility deposits	286,867	-
Fiduciary fund cash and cash equivalents and investments	<u>1,733,306</u>	<u>89,029</u>
	<u><u>\$ 66,672,791</u></u>	<u><u>\$ 10,914,524</u></u>

Note 3. Property Taxes

Property taxes are levied on a fiscal year basis on July 1, the assessment date, and become a lien as of that date. Supplemental property billings are levied in June to reflect construction in progress during the fiscal year. Personal property assessments are prorated for additional acquisitions of personal property throughout the year resulting in additional billings to taxpayers. Real estate taxes are payable in four quarterly installments on November 15, January 15, March 15, and May 15. Personal property taxes are payable on November 15 and additional billings are due February 15.

A penalty of 10% for late payment and interest at the rate of 10% is charged on unpaid balances. The City bills and collects its own property taxes.

CITY OF LYNCHBURG, VIRGINIA

Notes to Financial Statements
As of June 30, 2004

Note 4. Interfund Receivables, Payables and Transfers

Interfund balances at June 30, were as follows:

	Interfund Receivables	Interfund Payables
Major Funds:		
General	\$ 1,900,810	\$ 215,097
Nonmajor Funds – Special Revenue:		
City Federal/State Aid Projects Fund	-	51,157
Community Development Block Grant Fund	-	112,465
Museum System Fund	-	736
Lynchburg Business Development Centre Fund	-	30,000
Detention Home Fund	-	248,459
Comprehensive Services Act Fund	-	1,120,320
E-911 Fund	-	41,200
Major Proprietary Funds:		
Water	215,097	107,584
Sewer	-	67,665
Airport	-	34,352
Solid Waste	-	65,873
Internal Service	-	20,999
Totals	<u>\$ 2,115,907</u>	<u>\$ 2,115,907</u>

Interfund receivables primarily represent advances to special revenue funds to be repaid with future grant revenues.

Interfund transfers were as follows:

	To	From
Major Funds:		
General	\$ 927,197	\$ 7,065,218
Nonmajor governmental funds	5,929,951	1,479,443
Major proprietary funds:		
Water	-	161,000
Sewer	-	396,189
Airport	490,831	-
Solid Waste	848,637	564,355
Internal Service	1,469,589	-
	<u>\$ 9,666,205</u>	<u>\$ 9,666,205</u>

Transfers between major funds and other nonmajor governmental funds were primarily to support capital projects and operation of funds.

CITY OF LYNCHBURG, VIRGINIA

Notes to Financial Statements

As of June 30, 2004

Note 5. Due From/To Primary Government and Component Units

Due from/to balances between the City and its component units at June 30, were as follows:

	Due From	Due To
Primary Government:		
General	\$ 2,039,756	\$ -
Special Revenue:		
Lynchburg Business Development Centre Fund	155,000	-
	<u>\$ 2,194,756</u>	<u>\$ -</u>
Component Units:		
Lynchburg City Schools	\$ -	\$ 1,990,784
Business Development Centre, Inc.	-	155,000
Greater Lynchburg Transit Company	-	48,972
	<u>\$ -</u>	<u>\$ 2,194,756</u>

Note 6. Due From Other Governments

Amounts due from other governments at June 30, consisted of the following:

	Primary Government		Component Units	
	Governmental Activities	Business-type Activities	Schools	Others
Surrounding counties – Detention Home	\$ 187,681	\$ -	\$ -	\$ -
Various federal and state grants	5,335,533	1,233,070	2,347,454	230,335
Virginia Revolving Loan	-	7,198,861	-	-
Members of Regional Sewage Treatment Plant	-	5,217,846	-	-
	<u>\$ 5,523,214</u>	<u>\$ 13,649,777</u>	<u>\$ 2,347,454</u>	<u>\$ 230,335</u>

CITY OF LYNCHBURG, VIRGINIA

Notes to Financial Statements
As of June 30, 2004

Note 6. Due From Other Governments (Continued)

Due from members of the Regional Sewage Treatment Plant

The amounts due from members of the Regional Sewage Treatment Plant Agreement (Agreement) of June 6, 1974 represent amounts due from Amherst County, the Bedford County Public Service Authority and the Campbell County Utilities and Service Authority for their proportionate share (20%) of improvements to Joint-Use Facilities. These Joint-Use Facilities are defined as the City's waste water treatment plant and its immediately related treatment facilities used jointly by the City and one or more of the Counties in connection with the transmission or treatment of wastes made the subject of the Agreement. The cost of improvements are billed to each community and recorded as contributed capital when related projects are completed. Pursuant to Section VI (b) of the Agreement, each County shall have the option of paying its proportionate share of the cost of the project either in cash or on a deferred payment schedule coinciding with the period over which the City's bonds are amortized plus interest at the rate equivalent to the net interest cost to the City. The Counties have elected to pay their share of improvements coinciding with the City's. Future payments to be received are as follows:

Amount receivable within 1 year	\$ 635,100
Amount receivable 1 to 5 years	1,932,808
Amount receivable beyond 5 years	3,926,029
Less: Discount	<u>(1,276,091)</u>
	<u>\$ 5,217,846</u>

The discount rate used was the Treasury bill rate at June 30, 2004 of 5.2%.

Note 7. Receivables

Receivables as of June 30 for the government's individual major funds and nonmajor funds in the aggregate, net of allowances for uncollectible accounts are as follows:

	<u>Property Taxes</u>	<u>Accounts</u>	<u>Other</u>	<u>Total</u>
General	\$ 1,473,319	\$ 4,623,093	\$ 226,817	\$ 6,323,229
Water	-	1,154,872	83,210	1,238,082
Sewer	-	1,810,418	113,988	1,924,406
Airport	-	40,485	127,260	167,745
Solid Waste	-	812,844	-	812,844
Internal Service	-	10,333	1,060	11,393
Nonmajor Governmental Funds	-	-	758,189	758,189
	<u>\$ 1,473,319</u>	<u>\$ 8,452,045</u>	<u>\$ 1,310,524</u>	<u>\$ 11,235,888</u>

CITY OF LYNCHBURG, VIRGINIA

Notes to Financial Statements
As of June 30, 2004

Note 8. Capital Assets

Primary Government:

A summary of the changes in the City's capital assets for governmental activities are as follows:

	Restated Beginning Balances	Transfers and Additions	Transfers and Retirements	Ending Balances
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 5,810,012	\$ 3,237,610	\$ 68,300	\$ 8,979,322
Construction in progress	18,370,469	22,259,767	14,688,817	25,941,419
Total capital assets, not being depreciated	24,180,481	25,497,377	14,757,117	34,920,741
Capital assets, being depreciated:				
Land improvements	3,945,014	2,387,226	-	6,332,240
Buildings and improvements	130,924,439	14,935,737	33,892	145,826,284
Infrastructure	183,916,612	2,713,313	3,217,610	183,412,315
Machinery and equipment	24,391,719	4,709,391	1,369,387	27,731,723
Total capital assets, being depreciated	343,177,784	24,745,667	4,620,889	363,302,562
Less – accumulated depreciation for:				
Land improvements	1,372,097	254,315	-	1,626,412
Buildings and improvements	68,063,190	3,097,847	11,187	71,149,850
Infrastructure	64,977,296	5,052,912	13,753	70,016,455
Machinery and equipment	12,356,969	2,634,866	1,233,266	13,758,569
Total accumulated depreciation	146,769,552	11,039,940	1,258,206	156,551,286
Total capital assets, being depreciated	196,408,232	13,705,727	3,362,683	206,751,276
Governmental activities capital assets, net	\$ 220,588,713	\$ 39,203,104	\$ 18,119,800	\$ 241,672,017

During fiscal year 2004, asset balances were adjusted by \$3,217,610 in order to properly classify right-of-way assets as non-depreciable land rather than infrastructure. Right-of-way assets were not being depreciated; therefore no adjustment was needed to correct the accumulated depreciation. The adjustment did not change the governmental activities net asset balance.

The gross cost and accumulated depreciation balances at June 30, 2003 were restated to record construction-in-progress and equipment assets that were not previously recorded as capital assets.

The construction-in-progress balance increased from \$14,882,536 to \$18,370,469 for fiscal year 2003. The \$3,487,933 increase was a result of restating prior year expenditures in the School Capital Projects Fund from other financing sources to construction expenditures relating to the E. C. Glass High School renovation project.

The equipment balance increased from \$9,798,311 to \$12,034,750 for fiscal year 2003. The net increase of \$2,236,439 consists of two restatements. The first restatement of \$2,192,890 was made to record the City's share (33.1%) of the Central Virginia Regional Radio System, which was originally constructed in 1999 and not previously recorded as an asset by the City. The second restatement of \$43,549 was made to record the purchase of a vehicle that was delivered to the City in June 2003 but was not recorded as an asset.

CITY OF LYNCHBURG, VIRGINIA

Notes to Financial Statements
As of June 30, 2004

Note 8. Capital Assets (Continued)

Primary Government: (Continued)

Depreciation was charged to governmental functions as follows:

Governmental activities:	
General government	\$ 452,777
Education	1,433,479
Judicial	176,319
Health and human services	363,614
Public Safety	1,540,478
Public Works	6,131,132
Community development	23,766
Cultural and recreational	<u>389,819</u>
Total governmental activities	<u>10,511,384</u>
Business-type activities:	
Water	57,795
Sewer	81,035
Airport	17,028
Solid Waste	<u>372,698</u>
Total business type activities	<u>528,556</u>
Total depreciation	<u><u>\$ 11,039,940</u></u>

The Fleet Internal Services Fund, whose assets are reported as a part of the City's governmental activities, purchases vehicles that are used by the City's Enterprise Funds. Depreciation related to those vehicles is allocated to the Enterprise Funds. In prior years, the City Capital Projects fund, on occasion, would construct assets that were used primarily by the Enterprise Funds. Depreciation on these assets is also allocated to the Enterprise Funds. The \$528,546 of business-type depreciation reflected above is the allocation of this depreciation and is not reflected on the business-type activities asset information reported below.

CITY OF LYNCHBURG, VIRGINIA

Notes to Financial Statements
As of June 30, 2004

Note 8. Capital Assets (Continued)

Primary Government: (Continued)

A summary of the changes in the City's capital assets for business-type activities is as follows:

	<u>Restated Beginning Balances</u>	<u>Transfers and Additions</u>	<u>Transfers and Retirements</u>	<u>Ending Balances</u>
Business-type activities:				
Capital assets, not being depreciated:				
Land	\$ 5,173,896	\$ 237,885	\$ -	\$ 5,411,781
Construction in progress	14,924,948	13,127,642	9,275,189	18,777,401
Total capital assets, not being depreciated	20,098,844	13,365,527	9,275,189	24,189,182
Capital assets, being depreciated:				
Land improvements	15,012,160	122,823	-	15,134,983
Buildings and improvements	35,717,068	186,781	-	35,903,849
Infrastructure	212,188,001	10,036,286	132,023	222,092,264
Machinery and equipment	16,128,673	1,052,214	2,469,753	14,711,134
Capitalized interest	5,352,663	67,614	-	5,420,277
Total capital assets, being depreciated	284,398,565	11,465,718	2,601,776	293,262,507
Less – accumulated depreciation for:				
Land improvements	10,473,299	519,997	-	10,993,296
Buildings and improvements	11,431,293	1,105,419	-	12,536,712
Infrastructure	51,706,444	5,398,157	3,367	57,101,234
Machinery and equipment	11,160,702	878,099	2,132,293	9,906,508
Capitalized interest	743,587	110,881	-	854,468
Total accumulated depreciation	85,515,325	8,012,553	2,135,660	91,392,218
Total capital assets, being depreciated, net	198,883,240	3,453,165	466,116	201,870,289
Business-type activities capital assets, net	<u>\$ 218,982,084</u>	<u>\$ 16,818,692</u>	<u>\$ 9,741,305</u>	<u>\$ 226,059,471</u>

The net infrastructure balance at June 30, 2003 was restated from \$161,954,856 to \$160,481,557 in order to record the write-off of a capital asset that was impaired at the end of fiscal year 2003. This restatement resulted in a \$1,473,299 net decrease of the fiscal year 2003 ending capital asset balance.

During fiscal year 2004, asset balances were adjusted by \$132,023 in order to properly classify right-of-way assets as non-depreciable land rather than infrastructure. Right-of-way assets were not being depreciated; therefore no adjustment was needed to correct accumulated depreciation. The adjustment did not change the business-type activities net asset balance.

CITY OF LYNCHBURG, VIRGINIA

Notes to Financial Statements
As of June 30, 2004

Note 8. Capital Assets (Continued)

Component Units:

A summary of the changes in capital assets of the Schools is as follows:

	Restated Beginning Balances	Transfers and Additions	Transfers and Retirements	Ending Balances
Capital assets, being depreciated:				
Equipment	\$ 5,135,485	\$ 224,852	\$ 73,314	\$ 5,287,023
Equipment – Cafeteria	387,757	23,870	-	411,627
Total capital assets, being depreciated	5,523,242	248,722	73,314	5,698,650
Less – accumulated depreciation for:				
Equipment	3,517,323	337,931	73,314	3,781,940
Equipment – Cafeteria	180,639	39,969	-	220,608
Total accumulated depreciation	3,697,962	377,900	73,314	4,002,548
Total capital assets, net	\$ 1,825,280	\$ (129,178)	\$ -	\$ 1,696,102

The gross cost and accumulated depreciation balances at June 30, 2003 were restated to record total assets at their actual cost and accumulated depreciation. As a result, the net beginning balance was decreased by \$3,411,195.

Details of capital assets of other Component Units are as follows:

Land, buildings and improvements	\$ 1,948,524
Machinery and equipment	8,300,858
	10,249,382
Less accumulated depreciation	(5,962,124)
	\$ 4,287,258

CITY OF LYNCHBURG, VIRGINIA

Notes to Financial Statements
As of June 30, 2004

Note 9. Long-Term Liabilities

General Obligation Bonds:

Details of general obligation bonds of the City at June 30 are as follows:

General Obligation Bonds	Interest Rates	Date Issued	Final Maturity Date	Amount of Original Issue	Primary Government			Total All Funds
					Public Improvements	School Facilities	Proprietary Funds	
Bond anticipation note								
Public Improvement BAN	3.00%	06/01/2004	2006	\$ 7,500,000	\$ -	\$ 7,500,000	\$ -	\$ 7,500,000
Serial Bonds								
VP SA	4.90 - 6.35%	11/12/1992	2012	\$ 458,292	-	227,951	-	227,951
VRA Public Improvement	4.50%	03/24/1994	2016	\$ 3,976,369	-	-	2,854,113	2,854,113
VP SA	6.25% - 6.75%	11/22/1994	2014	\$ 2,100,362	-	1,269,285	-	1,269,285
Public Improvement Bonds	5.35% - 6.50%	01/01/1995	2015	\$ 9,800,000	196,809	550,000	233,191	980,000
Taxable Refunding Bonds	5.40% - 6.75%	01/01/1996	2014	\$ 7,150,000	-	4,590,000	-	4,590,000
Public Improvement Bonds	4.30 - 4.90%	02/01/1996	2016	\$ 5,000,000	2,902,800	-	97,200	3,000,000
Public Improvement Bonds	4.60 - 5.40%	02/15/1997	2017	\$ 16,000,000	3,445,000	4,680,000	2,535,000	10,660,000
Public Improvement Bonds	4.00 - 5.00%	04/01/1998	2018	\$ 33,855,000	8,596,144	7,035,515	13,243,341	28,875,000
Public Improvement Bonds	4.25 - 5.00%	06/01/1999	2019	\$ 17,805,000	6,153,095	2,142,657	5,479,248	13,775,000
Public Improvement Bonds	5.25 - 5.75%	07/18/2000	2030	\$ 14,405,000	5,469,405	2,375,595	5,175,000	13,020,000
Public Improvement Bonds	4.00 - 4.875%	08/16/2001	2031	\$ 14,620,000	-	1,888,866	12,211,134	14,100,000
VP SA Bonds	3.10 - 5.35%	11/15/2001	2021	\$ 3,473,329	-	3,155,648	-	3,155,648
VP SA Bonds	2.35 - 5.10%	11/07/2002	2023	\$ 6,513,732	-	6,214,869	-	6,214,869
Refunding Bonds	2.00 - 5.00%	02/01/2003	2014	\$ 23,670,000	6,450,434	756,763	12,907,803	20,115,000
Public Improvement Bonds	2.5 - 4.625%	02/01/2003	2033	\$ 16,745,000	8,805,000	2,310,000	5,035,000	16,150,000
Public Improvement Bonds	3.0 - 5.00%	06/01/2004	2034	\$ 28,160,000	10,975,000	10,060,000	7,125,000	28,160,000
Totals					<u>\$ 52,993,687</u>	<u>\$ 54,757,149</u>	<u>\$ 66,896,030</u>	<u>\$ 174,646,866</u>

CITY OF LYNCHBURG, VIRGINIA

Notes to Financial Statements
As of June 30, 2004

Note 9. Long-Term Liabilities (Continued)

General Obligation Bonds: (Continued)

Bonds issued between 1992 and 2004 are callable subject to a maximum premium of 2%.

Authorized and unissued general obligation public improvement bonds and public utility revenue bonds amounted to \$23,755,000 and \$5,888,256 respectively, at June 30, 2004.

The Commonwealth imposes a legal limit of 10% of assessed valuation on the amount of general obligation borrowings that may be issued by the City. As of June 30, 2004, the City's aggregate general obligation indebtedness was \$162,927,165 less than the state limit. There are no overlapping or underlying tax jurisdictions.

Revenue Debt:

Details of the revenue debt of the Enterprise Funds at June 30, are as follows:

	Interest Rates	Date Issued	Maturity Date	Original Issue	
Virginia Resources Authority:					
Public Utility Revenue Bonds	0.00%	03/28/1995	2026	\$ 6,571,000	\$ 4,025,766
Public Utility Revenue Bonds	0.00%	08/10/1995	2028	10,000,000	6,900,794
Public Utility Revenue Bonds	0.00%	06/27/1996	2028	8,000,000	5,341,891
Public Utility Revenue Bonds	3.00%	07/17/1997	2020	14,108,460	12,071,465
Public Utility Revenue Bonds	3.00%	06/02/1999	2020	2,591,540	2,115,102
Public Utility Revenue Bonds	0.00%	07/17/1997	2029	7,591,540	5,802,213
Public Utility Revenue Bonds	0.00%	08/01/1998	2030	6,203,000	5,034,557
Public Utility Revenue Bonds	0.00%	09/02/1999	2021	5,300,000	4,742,105
Public Utility Revenue Bonds	0.00%	03/15/2001	2031	735,000	634,144
Public Utility Revenue Bonds	3.50%	06/08/2001	2021	2,835,000	2,652,803
Public Utility Revenue Bonds	0.00%	11/06/2001	2033	1,413,613	1,331,552
Public Utility Revenue Bonds	0.00%	09/15/2003	2035	2,500,000	2,500,000
Public Utility Revenue Bonds	0.00%	05/20/2004	2037	6,000,000	6,000,000
Total Revenue Debt:				\$	\$ 59,152,392

The revenue bonds have been issued in accordance with the terms of an indenture agreement with the Virginia Resources Authority (VRA) of the Commonwealth of Virginia. The indenture agreement requires the City to pledge its Sewer Fund Revenues as collateral for the revenue bonds and to maintain debt coverage in the Sewer Fund equal to at least 1.15 of all debt service payments. As show below, the debt coverage ratio for the year ended June 30, 2004 was 1.33.

Sewer Fund Operating Income	\$ 3,648,632
Add:	
Depreciation and amortization	3,662,382
Interest income received	200,511
Capital contributions from members - Regional Sewerage Treatment Plant	272,336
Governmental grants and miscellaneous income	142,053
Net revenue per indenture	<u>\$ 7,925,914</u>
Net principal and interest payments (excluding principal and interest payments on line of credit)	<u>\$ 5,955,878</u>
Debt coverage	<u>1.33</u>

CITY OF LYNCHBURG, VIRGINIA

Notes to Financial Statements
As of June 30, 2004

Note 9. Long-Term Liabilities (Continued)

Primary Government:

The following is a summary of changes in long-term liabilities for the year ended June 30:

	Restated Beginning Balance	Additions	Deletions	Ending Balance	Current Portion
Governmental Activities					
Bond anticipation notes payable	\$ 610,000	\$ 7,500,000	\$ 610,000	\$ 7,500,000	\$ -
General obligation bonds payable	85,006,119	21,035,000	5,790,283	100,250,836	7,147,653
Notes payable*	-	3,200,000	-	3,200,000	-
State literary fund loans payable	224,737	-	58,275	166,462	39,525
Adjust for deferred amounts:					
Issuance premiums	657,865	-	60,838	597,027	-
On refunding	(371,685)	-	(65,820)	(305,865)	-
Total bonds and notes payable	86,127,036	31,735,000	6,453,576	111,408,460	7,187,178
Workers' compensation payable	581,159	242,413	510,896	312,676	78,904
Vacation pay liability	3,897,888	4,274,214	4,560,779	3,611,323	433,359
Capitalized lease obligations	2,186,629	6,600,000	390,408	8,396,221	466,863
	<u>\$ 92,792,712</u>	<u>\$ 42,851,627</u>	<u>\$ 11,915,659</u>	<u>\$ 123,728,680</u>	<u>\$ 8,166,304</u>
Business-Type Activities					
General obligation bonds payable	\$ 64,140,522	\$ 7,125,000	\$ 4,369,492	\$ 66,896,030	\$ 5,263,816
Public utility revenue bonds payable	52,972,747	8,500,000	2,320,355	59,152,392	2,326,434
Adjust for deferred amounts:					
Issuance discounts	(442,586)	-	(34,941)	(407,645)	-
Issuance premiums	473,620	-	44,751	428,869	-
On refunding	(833,280)	-	(105,458)	(727,822)	-
Total bonds and notes payable	116,311,023	15,625,000	6,594,199	125,341,824	7,590,250
Workers' Compensation payable	-	94,623	-	94,623	21,361
Vacation pay liability	416,206	510,032	527,571	398,667	47,839
Landfill closure – open landfill	2,226,726	348,643	-	2,575,369	-
Landfill closure – closed landfill	79,817	-	-	79,817	79,817
	<u>\$ 119,033,772</u>	<u>\$ 16,578,298</u>	<u>\$ 7,121,770</u>	<u>\$ 128,490,300</u>	<u>\$ 7,739,267</u>

* A note receivable was obtained concurrent with the issuance of this note payable. Neither instrument provided or consumed current financial resources, and therefore are not reflected in the fund statements. The note receivable is included in other assets on the government-wide statement of net assets.

CITY OF LYNCHBURG, VIRGINIA

Notes to Financial Statements
As of June 30, 2004

Note 9. Long-Term Liabilities (Continued)

Debt Service to Maturity:

Following is a summary of debt service to maturity for long-term debt:

Year Ending June 30	Governmental Activities			
	Governmental Obligation		Literary Fund Loans	
	Principal	Interest	Principal	Interest
2005	\$ 7,147,653	\$ 4,913,763	\$ 39,525	\$ 6,248
2006	14,472,136	4,710,946	39,525	4,870
2007	7,184,187	4,211,204	19,000	3,496
2008	6,948,638	3,936,094	19,000	2,736
2009	6,670,386	3,619,118	19,000	1,976
2010-2014	32,262,517	13,384,861	19,000	1,216
2015-2019	22,523,734	6,353,489	11,412	456
2020-2024	10,451,585	2,061,461	-	-
2025-2029	2,815,000	520,444	-	-
2030-2034	475,000	59,885	-	-
Total	<u>\$ 110,950,836</u>	<u>\$ 43,771,265</u>	<u>\$ 166,462</u>	<u>\$ 20,998</u>

Year Ending June 30	General Obligation Bonds							
	Enterprise Funds							
	Sewer Fund		Water Fund		Solid Waste Management Fund		Airport Fund	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2005	\$ 2,282,136	\$ 1,315,522	\$ 1,492,883	\$ 1,083,241	\$ 1,157,612	\$ 287,927	\$ 331,185	\$ 105,961
2006	2,176,202	1,245,378	1,455,359	1,034,321	1,013,551	251,809	318,595	98,619
2007	2,263,821	1,176,737	1,579,290	985,673	995,824	221,377	312,370	88,126
2008	2,105,810	1,106,207	1,503,594	933,379	975,053	190,205	277,397	78,416
2009	1,875,776	1,014,619	1,334,483	864,920	656,616	142,579	234,711	65,426
2010-2014	8,239,478	3,917,006	5,878,863	3,450,165	2,302,917	304,223	957,717	155,108
2015-2019	5,743,701	2,397,723	4,176,565	2,259,483	293,717	13,262	267,678	44,012
2020-2024	3,243,507	1,466,479	2,465,157	1,452,787	-	-	-	-
2025-2029	2,991,475	808,589	2,652,990	811,599	-	-	-	-
2030-2034	1,698,000	174,679	1,642,000	186,624	-	-	-	-
Total	<u>\$ 32,619,906</u>	<u>\$ 14,622,939</u>	<u>\$ 24,181,184</u>	<u>\$ 13,062,192</u>	<u>\$ 7,395,290</u>	<u>\$ 1,411,382</u>	<u>\$ 2,699,653</u>	<u>\$ 635,668</u>

CITY OF LYNCHBURG, VIRGINIA

Notes to Financial Statements
As of June 30, 2004

Note 9. Long-Term Liabilities (Continued)

Debt Service to Maturity: (Continued)

Year ending June 30	Revenue Bonds	
	Sewer Fund	
	Principal	Interest
2005	\$ 2,326,434	\$ 511,992
2006	2,435,978	485,781
2007	2,463,002	458,757
2008	2,690,864	430,895
2009	2,719,591	402,168
2010-2014	14,061,049	1,547,746
2015-2019	14,925,419	683,378
2020-2024	8,940,232	26,118
2025-2029	6,085,690	-
2030-2034	1,820,802	-
2035-2037	683,331	-
Total	<u>\$ 59,152,392</u>	<u>\$ 4,546,835</u>

Notes payable, bank:

In July 2002, the City issued a general obligation note to SunTrust Bank and concurrently entered into a financing agreement with the Bank. The agreement provides for borrowings of up to \$15,000,000 to provide interim financing for qualifying capital improvements. Interest is equal to the tax-exempt note rate as defined in the agreement, plus 0.45%, up to a maximum of 4%, payable in arrears, on a monthly basis. All outstanding amounts are due at final maturity on August 30, 2007. There are no amounts outstanding at June 30, 2004. All principal interim borrowings on the line of credit during FY 2004 were retired on June 23, 2004, with proceeds from the 2004 bond issue. Principal activity on the line of credit during FY 2004 was as follows:

	Beginning Balance	Additions	Deletions	Ending Balance
City Capital Projects Fund	\$ -	\$ 2,605,000	\$ (2,605,000)	\$ -
School Capital Projects Fund	-	9,599,000	(9,599,000)	-
Total Governmental Activities	<u>\$ -</u>	<u>\$ 12,204,000</u>	<u>\$ (12,204,000)</u>	<u>\$ -</u>
Water Fund	\$ -	\$ 1,128,694	\$ (1,128,694)	\$ -
Sewer Fund	-	773,306	(773,306)	-
Total Business-Type Activities	<u>\$ -</u>	<u>\$ 1,902,000</u>	<u>\$ (1,902,000)</u>	<u>\$ -</u>

Bond Anticipation Notes:

In June 2004, the City issued \$7,500,000 general obligation bond anticipation notes maturing on June 1, 2006 for interim financing of school renovation projects. The notes bear interest at the rate of 3% per annum. The notes have been issued in anticipation of securing permanent financing through the Virginia Public School Authority ("VPSA") loan program.

CITY OF LYNCHBURG, VIRGINIA

Notes to Financial Statements
As of June 30, 2004

Note 9. Long-Term Liabilities (Continued)

Component Unit – Lynchburg City Schools:

The following is a summary of other long-term liabilities for the year ended June 30:

	Beginning Balance	Additions	Deletions	Ending Balance	Current Portion
Vacation pay liability	\$ 465,443	\$ 68,077	\$ -	\$ 533,520	\$ -
Capital lease obligations	2,061,890	-	737,511	1,324,379	568,006
	<u>\$ 2,527,333</u>	<u>\$ 68,077</u>	<u>\$ 737,511</u>	<u>\$ 1,857,899</u>	<u>\$ 568,006</u>

Note 10. Landfill Closure and Postclosure Care Costs

The City closed its Tyreeanna I landfill site on October 8, 1993. In accordance with federal and state laws, the City placed a final cover on this site and was required to perform certain maintenance and monitoring functions at this site for a minimum of ten years after closure, or until there are no more remaining environmental issues. The City has recently completed the ten-year period; however, due to the State's groundwater monitoring requirements, the City must continue to monitor the groundwater surrounding the facility. The method agreed upon by the State and the City is called monitored natural attenuation. This requires on-going, semi-annual testing of groundwater from wells located above and below the City's landfill. The cumulative amount of estimated closure and postclosure care costs to date for this site is \$3,903,549. As of June 30, 2004, total payments to date are \$3,823,732, leaving estimated postclosure costs of \$79,817. This amount is included in the landfill closure and postclosure liability in the Solid Waste Management Enterprise Fund.

The City's Tyreeanna II landfill site began accepting waste on October 8, 1993. State and federal laws also require the City to place a final cover on this site when it stops accepting waste and to perform maintenance and monitoring functions at this site for thirty years after closure. Although closure and postclosure care costs are paid only near or after the date the landfill stops accepting waste, the City reports a portion of these closure and postclosure care costs as an operating expense in each period based on landfill capacity used as of each balance sheet date. Estimated closure and postclosure care costs at June 30, 2004 of \$2,575,369 for the Tyreeanna II landfill site is based upon the total estimated closure and postclosure care costs of \$6,154,131 times 41.85 percent of the landfill used to date. The City will recognize the remaining estimated cost of closure and postclosure of \$3,578,762 as the remaining estimated capacity is filled. The City expects to close the landfill in 2014. Actual cost may be higher due to inflation, changes in technology or changes in regulations. The total closure/postclosure cost estimate was adjusted in 2004 to reflect the inclusion of geo-textile filter fabric in the closure materials, as well as a reduction of 366,024 of the cubic yards of air space used in 2003.

The city uses the financial test method of demonstrating assurance for closure and postclosure care.

Note 11. Fund Equity Balances

Reserved Fund Balance: Fund balance reserves are used to indicate the portion of fund balance that is not available for appropriation or is legally segregated for a specific future use.

CITY OF LYNCHBURG, VIRGINIA

Notes to Financial Statements
As of June 30, 2004

Note 11. Fund Equity Balances (Continued)

Designated Fund Balance: Designations of fund balance are established to indicate tentative plans for financial resource utilization in a future period. Designations of fund balance by purpose are as follows:

	General	Special Revenue	Capital Projects
Self insurance and other insurance matters	\$ 1,868,434	\$ -	\$ -
Health insurance	195,000	-	-
Emerging issues	214,602	-	-
Return of fiscal year 2004 funds to schools	1,990,784	-	-
Budget carryforward	354,000	-	-
Completion of other approved specific projects and activities	500,000	1,225,652	386,088
Data processing	429,473	-	-
Court facilities	224,819	-	-
Criminal Justice Academy	192,313	-	-
Recreation	76,688	-	-
Donations	38,428	-	-
	<u>\$ 6,084,541</u>	<u>\$ 1,225,652</u>	<u>\$ 386,088</u>

Deficit Fund Balance: At June 30, the following funds had a deficit fund balance:

Comprehensive Services Act Fund	<u>\$ 363,743</u>
Home Investment Trust Special Revenue Fund	<u>\$ 11,881</u>

Note 12. Employee Benefit Plans

Defined Benefits Pension Plan:

Plan Description: The City contributes to the Virginia Retirement System (“VRS”), an agent and cost-sharing multiple-employer defined pension plan administered by the Virginia Retirement System (“the System”). In addition, professional and non-professional employees of the schools are covered by the VRS. Professional employees participate in a VRS statewide teacher cost sharing pool, and non-professional employees participate as a separate group in the agency multiple-employer retirement system.

All full-time, salaried permanent employees of participating employers must participate in the VRS. Benefits vest after five years of service. Employees are eligible for an unreduced retirement benefit at age 65 with 5 years of service (age 60 for participating law enforcement officers and firefighters) and at age 50 with 30 years of service for participating employees (age 50 with 25 years for participating law enforcement officers and firefighters). Employees who retire with a reduced benefit at age 55 (age 50 for participating law enforcement officers and firefighters) with at least five years of credited service are entitled to an annual retirement benefit payable monthly for life in an amount equal to 1.7 percent of their average final salary (“AFS”) for each year of credited service. An optional reduced retirement benefit is available to members of VRS as early as age 50 with 10 years of credited service. In addition, retirees qualify for annual cost-of-living increases beginning in their second year of retirement. AFS is defined as the highest consecutive 36 months of salary. Benefits are actuarially reduced for retirees who retire prior to becoming eligible for full retirement benefits. Participating law enforcement officers and firefighters may receive a monthly benefit supplement if they retire prior to age 65. The VRS also provides death and disability benefits.

CITY OF LYNCHBURG, VIRGINIA

Notes to Financial Statements
As of June 30, 2004

Note 12. Employee Benefit Plans (Continued)

Title 51.1 of the Code of Virginia (1950), as amended, assigns the authority to establish and amend benefit provisions to the State legislature. The system issues a publicly available Comprehensive Annual Financial Report that includes financial statements and required supplementary information for VRS. A copy of that report may be obtained by writing the System at P.O. Box 2500, Richmond, Virginia 23218-2500.

Funding Policy: Plan members are required by Title 51.1 of the Code of Virginia (1950), as amended, to contribute 5% of their annual salary to the VRS. The employer has assumed this 5% member contribution. In addition, the City and the Schools are required to contribute the remaining amounts necessary to fund their participation in the VRS using the actuarial basis specified by the Code of Virginia and approved by the VRS Board of Trustees. The City's contribution rate for the fiscal year ended 2004 were 15.25% of annual covered payroll. The Schools' contribution rates for the fiscal year ended 2004 were 8.77% for professional and 8.00% for non-professional employees. Both the City's and the Schools' contribution rates include the employee's share of 5% paid by the employer.

Annual Pension Cost: For 2004, the City's and Schools' annual pension costs of \$6,627,182 and \$4,065,368, respectively, were equal to their required and actual contributions. The required contributions were determined as part of the June 30, 2002 actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included: (a) 8% investment rate of return; (b) projected salary increases of 4.25% and 6.10% per year (depending on the employee's service and classification (general employee or uniformed officer), and (c) 3% per year cost-of-living adjustments. Both (a) and (b) included an inflation component of 3%. The actuarial value of the City's and Schools' assets is equal to the modified market value of assets. This method was determined using techniques that smooth the effects of short-term volatility in the market value of assets over a five-year period. The City's and Schools' unfunded actuarial accrued liability is being amortized as a level percentage of payroll on an open basis within a period of 27 years or less.

Trend Information for the City of Lynchburg			
Fiscal Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
June 30, 2004	\$ 6,627,182	100%	None
June 30, 2003	\$ 6,316,504	100%	None
June 30, 2002	\$ 6,219,909	100%	None

Trend Information for the Lynchburg City Schools			
Fiscal Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
June 30, 2004	\$ 4,065,368	100%	None
June 30, 2003	\$ 3,824,781	100%	None
June 30, 2002	\$ 3,663,580	100%	None

Post Retirement Health Care Benefits:

In addition to providing pension benefits, City policy allows the City to provide certain health care benefits to retired full-time employees. Substantially all of the City's employees may become eligible for these benefits if they reach normal retirement age while working for the City. At June 30, 2004, there were 465 employees eligible to receive these benefits. The cost of providing these benefits is recognized as paid and was approximately \$1,193,120 for 2004.

CITY OF LYNCHBURG, VIRGINIA

Notes to Financial Statements
As of June 30, 2004

Note 12. Employee Benefit Plans (Continued)

Post Retirement Health Care Benefits: (Continued)

The Governmental Accounting Standards Board ("GASB") has issued its Statement No. 45 *Accounting and Financial Reporting by Employers for Postemployment Benefit Plans Other Than Pensions*. The Statement establishes standards for the measurement, recognition and display of OPEB expense and related liabilities in the financial statements. Management has not completed the process of evaluating the impact that will result from adoption of the standard, and is therefore unable to disclose the impact of adoption. The requirements of the Statement are effective in three phases based on the government's annual revenues, with the earliest effective date being for the year ended June 30, 2008.

Note 13. Leases

Lessee:

Operating leases have original terms from one month to 60 months and in certain instances allow cancellation if funds are not appropriated for each year's payments.

At June 30, future minimum lease payments are as follows:

<u>Fiscal Year</u>	<u>Operating Leases</u>	
	<u>Governmental Obligation</u>	<u>Component Unit</u>
2005	\$ 415,254	\$ 165,234
2006	198,041	125,163
2007	97,062	33,785
2008	42,657	-
2009	39,960	-
2010-2014	159,840	-
2015-2019	159,840	-
2020-2021	159,840	-
	<u>\$ 1,272,494</u>	<u>\$ 324,182</u>

For 2004, the City incurred rental expenditures of \$324,641 and \$58,442 in the General Fund and Special Revenue Funds, respectively, and rental expense of \$32,171 in the Enterprise Fund. For 2004, the Schools incurred rental expenditures of \$139,358.

CITY OF LYNCHBURG, VIRGINIA

Notes to Financial Statements
As of June 30, 2004

Note 13. Leases (Continued)

Lessor:

The City is the lessor of certain airport facilities and other buildings under various operating leases for terms ranging from one to nine years. Future minimum lease payments to be received are as follows:

<u>Year ending June 30</u>	
2005	\$ 354,460
2006	320,476
2007	296,200
2008	205,821
2009	179,816
2010-2012	<u>527,298</u>
Total future minimum rentals	<u>\$ 1,884,071</u>

The amounts above do not include contingent rentals, which may be received under certain leases based on usage and sales. Rental income for the year ended June 30, approximated \$2,504,339 including \$1,059,399 in contingent rentals.

Note 14. Risk Management

The Risk Management Programs of the City are as follows:

Workers' Compensation: The City is self-insured for workers' compensation claims. All settled claims are paid through the General Fund. The liability for worker's compensation claims, including an estimate of incurred but not reported claims based on prior experience, to be paid in the next fiscal year and in future years is reflected in the statement of net assets. Total claims paid for the year ended June 30, 2004 amounted to approximately \$510,896.

General Liability and Other: The City is self-insured for general liability and automobile liability claims and purchases insurance coverage for risks related to property, boiler and machinery, surety bonds, and airport liability. City property is insured up to a limit of \$257,095,129 per occurrence. Other liability policies provide up to \$60,000,000 coverage in the aggregate. Police professional liability and public officials' liability claims with a \$250,000 deductible per claim are covered through a policy with the States Self Insurance Risk Group. Total premiums for purchased coverage for the year ended June 30, 2004 were approximately \$465,844. The City has designated a portion of its fund balance in the General Fund to fund future general liability claims. City management believes any incurred but not reported claims at June 30, 2004 would be insignificant.

Healthcare: The City's professionally administered self-insurance program provides healthcare coverage for employees and retirees of the City on a cost-plus basis. Dependents of employees and retirees are also covered by the program provided they pay a premium to the City. Under the program, the City is obligated for claims payments and administrative costs. A stop loss insurance contract executed with an insurance carrier covers claims in excess of \$150,000 per covered individual per contract year. Total claims settlements did not exceed coverage for the last three years. For the year ended June 30, 2004, total claims expense of approximately \$6,344,132, which did not exceed the stop loss provisions, was incurred. Administrative fees and stop loss premiums for the year ended June 30, 2004 totaled approximately \$532,265. Estimated incurred but not reported claims at June 30, 2004 based on prior experience, totaled \$616,141 and have been funded by the City.

CITY OF LYNCHBURG, VIRGINIA

Notes to Financial Statements
As of June 30, 2004

Note 14. Risk Management (Continued)

Healthcare: (Continued)

It was noted that the end of the year liability for Workers' Compensation claims and Healthcare claims disclosed below was incorrect. The beginning balance was adjusted to actual in the current year.

Changes in aggregate liabilities were as follows:

			Beginning of Year	Other	Claims and Reserves	Claim Payments	End of Year
Workers' Compensation	2004	\$	937,282	\$ (356,123)	\$ 337,036	\$ 510,896	\$ 407,299
General/Automotive Liability	2004	\$	60,000	\$ -	\$ 21,201	\$ 39,701	\$ 41,500
Healthcare	2004	\$	254,652	\$ 238,054	\$ 6,344,132	\$ 6,086,838	\$ 750,000

General/Automobile Liability and Healthcare are considered current liabilities and are included in accounts payable and accrued liabilities in the Statement of Net Assets. Workers' Compensation breakdown between current and noncurrent is shown in Note 9.

The Risk Management Program of the Schools is as follows:

Healthcare: The School's professionally administered self-insurance program provides healthcare coverage for employees and retirees of the Schools on a cost-plus basis. Dependents of employees and retirees are also covered by the program provided they pay a premium to the Schools. Under the program, the Schools are obligated for claims payments and administrative costs. A stop loss insurance contract executed with an insurance carrier covers claims in excess of \$125,000 per covered individual per contract year. Total claims settlements did not exceed coverage for the last three years. For the year ended June 30, 2004, total claims expense of approximately \$6,109,114, which did not exceed the stop loss provisions, was incurred. Administrative fees and stop loss premiums for the year ended June 30, 2004 totaled approximately \$600,156. Estimated incurred but not reported claims at June 30, 2004 based on prior experience, totaled \$766,564 and have been funded by the Schools.

Changes in aggregate liabilities were as follows:

			Beginning of Year	Claims and Reserves	Claim Payments	End of Year
Healthcare	2004	\$	1,307,035	\$ 6,107,466	\$ 6,109,114	\$ 1,305,387

CITY OF LYNCHBURG, VIRGINIA

Notes to Financial Statements
As of June 30, 2004

Note 15. Significant Transactions of the City and Discretely Presented Component Unit-School Board

Certain transactions between the City and School Board component unit are explained here to provide a more informed understanding of the operational relationship of the two entities and how such transactions are presented in the financial statements.

1. The School Board can neither levy taxes nor incur debt under Virginia law. Therefore, the City issues debt “on behalf” of the School Board. The debt obligation is recorded as a liability of the City’s governmental activities. The proceeds from the debt issued “on behalf” of the School Board are recorded in the City’s General Fund. Money in an amount equal to the proceeds received is then provided to the School Board to pay for capital expenditures. Any unspent money at year-end is reported as deposits and investments of the City in the School Capital Projects Fund.
2. The primary government’s budgeting process provides funding in the City General Fund for School Board component unit debt service payments. GAAP requires that debt issued “on behalf” of the School Board and related debt service payments be reported by the primary government for financial reporting purposes. Therefore, debt service payments for school bonded debt is reported as part of the primary government for financial reporting purposes in the Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds. Debt and related debt service for other than bonded debt is reported by the School Board.
3. If all economic resources associated with school activities were reported with the School Board, its total expenses would be \$89,181,999. That expense is obtained as follows:

Expenses of School Board – Component Unit (Exhibit 2)	\$ 74,963,406
Principal and other debt service expenses included in primary government	<u>14,218,593</u>
Total expenses/expenditures for school activities	<u>\$ 89,181,999</u>

Note 16. Commitments and Contingencies

Combined Sewer Overflow:

In October 1989, the City completed its update of the combined sewer overflow (“CSO”) segment of the 1978 study regarding system inflow/infiltration. The purpose of this study update was to provide a cost-effective plan for CSO control. After detailed evaluation of a wide variety of control alternatives, this study update/plan concluded that sewer separation is the most cost-effective control option. Updated estimates performed in 2000 indicate that the total remaining cost of CSO control, including related work such as sewer replacement/overhaul and street paving will total approximately \$271,000,000 in 2004 dollars. On August 19, 1994, the Virginia Department of Environmental Quality (“VDEQ”) issued the City’s sewage discharge permit and consent special order continuing the terms and conditions that will govern implementation of the City’s CSO control plan. The permit requires the City to implement the CSO control plan and to undertake certain combined sewer management practices designed to minimize CSO discharge until the sewer system is completely separated. The order establishes a compliance schedule and project priority for implementation of the CSO control plan.

The compliance schedule does not contain fixed dates for implementing the CSO control plan, but rather provides for implementation based on criteria reflecting the limits of the City’s financial capability. The Special Order requires the City to maintain a sewer operating fund debt coverage ratio within a range of 1.1 to 1.5 and reserve funds to equal no more than 25 percent of the subsequent years’ budgeted operating expenditures. The City is currently implementing the CSO control plan in accordance with the requirements of its permit and consent order. Further, the City is required by the consent order to submit annual reports, including independent rate consultant reports, to VDEQ on the City’s compliance with the order and its progress with CSO control plan implementation.

CITY OF LYNCHBURG, VIRGINIA

Notes to Financial Statements
As of June 30, 2004

Note 16. Commitments and Contingencies (Continued)

Construction and Related Commitments:

At June 30, 2004, the City had outstanding commitments under various construction contracts totaling approximately \$32,005,142.

Grant Programs:

Under the terms of federal and state grants, periodic audits are required and certain costs may be questioned as to being appropriate expenditures under terms of the grants. Such audits could lead to reimbursement to the grantor agencies. City management believes disallowances, if any, would not be material to the financial position of the City at June 30, 2003.

Renovation Projects:

In March 2003, the City signed a leasing agreement with a private developer for the renovation of E. C. Glass High School. This arrangement will allow for the use of certain tax credits. The remaining cost for the renovation is estimated to be approximately \$11,744,102. The permanent financing will be through a combination of state literary loans, general obligation bonds and use of tax credits.

In August 2003, the City entered an agreement with a private developer for a courthouse museum project. This arrangement will allow for the use of certain tax credits. The renovation is estimated to cost approximately \$2,172,383.

In connection with these projects, the City has committed to make the private investors whole should the expected tax credits be denied by the taxing authority. The City's maximum exposure for the tax credit guarantee is approximately \$3,539,250.

Note 17. Subsequent Events

Capital Leases:

Subsequent to year-end, the discretely presented component-unit School Board obtained \$500,000 of capital lease to finance capital additions.

Note 18. New Accounting Standard

The Governmental Accounting Standards Board ("GASB") has issued its Statement No. 45 *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. The Statement establishes standards for the measurement, recognition and display of OPEB expense and related liabilities in the financial statements. Management has not completed the process of evaluating the impact that will result from adoption of the standard, and is therefore unable to disclose the impact of adoption. The requirements of the Statement are effective in three phases based on the government's annual revenues, with the earliest effective date being for the year ended June 30, 2007.

CITY OF LYNCHBURG, VIRGINIA

Notes to Financial Statements

As of June 30, 2004

Note 19. Restatement of Fund Balances and Net Assets

	Component Unit		
	Lynchburg Public Schools		
	Operating Fund	Federal Aid Fund	Governmental Activities
Fund Balance / Net Assets			
June 30, 2003 as previously stated	\$ 2,858,529	\$ (432,428)	\$ 6,650,208
Restatement to:			
Record return of City funding	(257,914)	-	(257,914)
Record VRS liability	(339,706)	-	(339,706)
Record Federal revenues	-	414,595	414,595
Debt expenditures not applied to outstanding balance	-	-	70,855
Record capital assets to actual	-	-	(3,411,195)
Record FICA tax on compensated absences	-	-	(33,076)
Record Permanent Fund as agency fund	-	-	(66,116)
Net change in fund balance/net assets	(597,620)	414,595	(3,622,557)
Fund balance/Net assets June 30, 2003 as restated	\$ 2,260,909	\$ (17,833)	\$ 3,027,651

CITY OF LYNCHBURG, VIRGINIA

Notes to Financial Statements
As of June 30, 2004

Note 19. Restatement of Fund Balances and Net Assets (Continued)

The following is a summary of the restatements of fund balances/net assets effective June 30, 2003:

	Primary Government								
	General Fund	Other Governmental Funds	Internal Service Fund	Governmental Activities	Water Fund	Sewer Fund	Airport Fund	Solid Waste Management Fund	Business-type Activities
Fund Balance/Net Assets, June 30, 2003 as previously stated	\$ 21,857,844	\$ 8,744,365	\$ 10,030,257	\$ 161,192,365	\$ 31,284,907	\$ 68,433,752	\$ 22,038,610	\$ 7,079,471	\$ 128,335,327
Restatement to:									
Increase landfill closure/postclosure to include costs required per permit	-	-	-	-	-	-	-	(172,918)	(172,918)
Decrease landfill closure/postclosure based on correct capacity estimate	-	-	-	-	-	-	-	511,627	511,627
Record City's share in the Central Virginia Radio System capital asset	-	-	-	2,192,890	-	-	-	-	-
Record City's share of Central Virginia Radio System investments	-	344,468	-	344,467	-	-	-	-	-
Record allowances for doubtful accounts	-	-	-	(736,752)	-	-	-	-	-
Record estimate of general liability claims payable	(41,500)	-	-	(41,500)	-	-	-	-	-
Record ambulance revenue accrual	-	-	-	462,390	-	-	-	-	-
Record June 30, 2003 return of School funding	257,914	-	-	257,914	-	-	-	-	-
Record FICA taxes on compensated absences	-	-	(2,291)	(279,289)	(10,995)	(6,093)	(4,943)	(6,300)	(28,331)
Record capital assets expensed in FY 2003	-	-	43,549	43,549	-	278,962	-	-	278,962
Record franchise tax revenues	136,267	-	-	136,267	-	-	-	-	-
Record impairment of water dome	-	-	-	-	(1,473,259)	-	-	-	(1,473,259)
Record dome capital additions previously expensed	112,671	-	-	112,671	46,188	-	-	-	46,188
Record dome insurance revenues	(453,812)	-	-	(453,812)	1,262,102	-	-	-	1,262,102
Record Central Virginia Regional Radio as an agency fund	-	(23,312)	-	(23,312)	-	-	-	-	-
Remove portion of E.C. Glass Receivable reclassified to capital assets	-	-	-	(37,731)	-	-	-	-	-
Remove portion of workers' compensation liability recorded twice	-	-	-	105,466	-	-	-	-	-
Net change in fund balance/net assets	11,540	321,156	41,258	2,083,218	(175,964)	272,869	(4,943)	332,409	424,371
Fund balance/net assets June 30, 2003 as restated	\$ 21,869,384	\$ 9,065,521	\$ 10,071,515	\$ 163,275,583	\$ 31,108,943	\$ 68,706,621	\$ 22,033,667	\$ 7,411,880	\$ 128,759,698

REQUIRED SUPPLEMENTAL INFORMATION

Required Supplemental Information
Schedule of Funding Progress for Defined Benefit Pension Plan
As of June 30, 2004

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded (Overfunded) Actuarial Accrued Liability (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
A. City of Lynchburg						
June 30, 2003	\$ 150,984,895	\$ 189,455,715	\$ 38,470,820	79.69%	\$ 41,022,649	93.78%
June 30, 2002	\$ 150,775,982	\$ 176,068,222	\$ 25,292,240	85.63%	\$ 40,610,667	62.28%
June 30, 2001	\$ 147,024,102	\$ 162,321,403	\$ 15,297,301	90.58%	\$ 39,469,110	38.76%
B. Lynchburg City Schools Non-professional Employees						
June 30, 2003	\$ 8,153,179	\$ 8,488,666	\$ 335,487	96.05%	\$ 3,029,056	11.08%
June 30, 2002	\$ 8,194,891	\$ 7,880,342	\$ (314,549)	103.99%	\$ 3,233,028	-9.73%
June 30, 2001	\$ 8,043,718	\$ 7,330,932	\$ (712,786)	109.72%	\$ 2,986,147	-23.87%

OTHER SUPPLEMENTAL INFORMATION

CITY OF LYNCHBURG, VIRGINIA

Nonmajor Governmental Funds
As of June 30, 2004

Nonmajor Governmental Funds:

Nonmajor governmental funds consist of special revenue and capital projects funds.

Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than major capital projects) that are legally restricted to expenditures for specified purposes.

Funds in this category include:

- City Federal/State Aid Projects Fund – Accounts for various federal and state grants for such purposes as building projects, certain social service and community development programs, and public safety.
- Community Development Block Grant Fund – Accounts for revenues from the Department of Housing and Urban Development which are used for various development projects.
- Title XX Grant Fund – Accounts for federal and state grants as well as local contributions received for adult day care facilities.
- Museum System Fund – Accounts for revenues received in support of the City's various museums.
- Lynchburg Business Development Centre Fund – Accounts for revenues received to support a local business incubator and for monies received from the Economic Development Administration for a revolving loan fund and certain other assistance.
- Detention Home Fund – Accounts for revenues received and expenditures made to support the operations of the City's Juvenile Detention Home.
- Law Library Fund – Accounts for fees received to support the operation of the Law Library.
- Recycling Program Fund – Accounts for revenues received from the City's Drop-off Recycling Program.
- Forfeited Assets Fund – Accounts for revenues received from the sale of confiscated assets which are related to illegal drug sales and are used for law enforcement expenditures for drug related activities.
- Lynchburg Expressway Appearance Fund – Accounts for the revenues and expenditures associated with beautification of the Lynchburg Expressway Area.
- Comprehensive Services Act Fund – Accounts for revenues received and expenditures made to support the Comprehensive Services Act for At-Risk Youth and Families adopted by the Virginia General Assembly.
- E-911 Fund – Accounts for revenues for the operations and capital expenditures of the E-911 system. In addition, accounts for the City's share of ownership of the Central Virginia Regional Radio Communication Board.
- Home Investment Trust Fund – Accounts for revenues received from the Department of Housing and Urban Development for support of affordable housing needs in the City.
- Partners in Emergency Response Fund – Accounts for revenues received to support the Occupational Safety Health Administration (OSHA) requirement for rescue in confined places.
- Technology Fund – Accounts for revenues received to support the acquisition of computer equipment and maintaining network equipment, servers, and the A/S 400.
- City Stadium Fund – Accounts for revenues received at the Lynchburg City Stadium.

Capital Projects Funds account for all resources used for the acquisition or construction of capital facilities except those financed by Enterprise Funds and federal and state grants. Funds in this category include:

- City Capital Projects Fund – Accounts for budgeted capital projects approved by City Council. The major source of this fund's resources is bond proceeds.
- Highway Projects Grant Fund – Accounts for federal and state grants received for highway projects.
- School Capital Projects Fund – Accounts for budgeted capital projects approved by the Lynchburg City Schools related to educational activities.

CITY OF LYNCHBURG, VIRGINIA

EXHIBIT A-1

Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2004

	Special Revenue	Capital Project	Total Nonmajor Governmental
Assets			
Cash and cash equivalents	\$ 3,653,944	\$ 4,184,922	\$ 7,838,866
Cash and cash equivalents - restricted	162	12,991,440	12,991,602
Receivables:			
Other	756,359	1,830	758,189
Due from component units	155,000	-	155,000
Due from other governments	2,093,456	-	2,093,456
Other assets	5,719	-	5,719
Total assets	\$ 6,664,640	\$ 17,178,192	\$ 23,842,832
Liabilities and fund balances			
Liabilities:			
Accounts payable	\$ 848,661	\$ 1,545,531	\$ 2,394,192
Accrued liabilities	27,378	-	27,378
Retainage payable	1,420	639,939	641,359
Due to other governments	27,995	-	27,995
Due to other funds	1,604,337	-	1,604,337
Deferred revenue	98,417	-	98,417
Total liabilities	2,608,208	2,185,470	4,793,678
Fund balances:			
Reserved for:			
Encumbrances	154,461	14,262,288	14,416,749
Unreserved:			
Designated	1,225,652	386,088	1,611,740
Undesignated	2,676,319	344,346	3,020,665
Total fund balances	4,056,432	14,992,722	19,049,154
Total liabilities and fund balances	\$ 6,664,640	\$ 17,178,192	\$ 23,842,832

Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Nonmajor Governmental Funds
Year Ended June 30, 2004

	Special Revenue	Capital Project	Total Nonmajor Governmental
Revenues			
Taxes	\$ 1,006,206	\$ -	\$ 1,006,206
Intergovernmental	12,879,632	2,415,214	15,294,846
Revenue from use of money and property	674,638	1,000	675,638
Charges for services	2,013,261	-	2,013,261
Miscellaneous	2,100,993	357,972	2,458,965
Total revenues	18,674,730	2,774,186	21,448,916
Expenditures			
Current:			
General government	170,242	-	170,242
Judicial	830,554	-	830,554
Health and human services	5,535,871	-	5,535,871
Public safety	3,951,154	-	3,951,154
Public works	27,065	-	27,065
Community development	5,411,863	-	5,411,863
Cultural and recreational	1,122,557	-	1,122,557
Capital outlay	63,625	25,287,295	25,350,920
Debt Service:			
Principal retirement	508,618	610,000	1,118,618
Interest payments	418,794	149,936	568,730
Total expenditures	18,040,343	26,047,231	44,087,574
Excess (deficiency) of revenues over expenditures	634,387	(23,273,045)	(22,638,658)
Other financing sources (uses)			
Proceeds from debt issues	-	28,171,783	28,171,783
Transfers in	1,205,889	4,724,062	5,929,951
Transfers out	(1,392,985)	(86,458)	(1,479,443)
Total other financing sources (uses)	(187,096)	32,809,387	32,622,291
Net change in fund balances	447,291	9,536,342	9,983,633
Fund balance - beginning (as restated)	3,609,141	5,456,380	9,065,521
Fund balance - ending	\$ 4,056,432	\$ 14,992,722	\$ 19,049,154

Combining Balance Sheet
Nonmajor Special Revenue Funds
June 30, 2004

	City Federal/State Aid Projects	Community Development Block Grant	Title XX Grant	Museum System	Lynchburg Business Development Centre	Detention Home	Law Library	Recycling Program	Forfeited Assets
Assets									
Cash and cash equivalents	\$ 947,208	\$ -	\$ -	\$ 11,671	\$ 171	\$ 147,359	\$ 5,872	\$ -	\$ 189,803
Cash and cash equivalents - restricted	-	-	-	-	-	-	-	-	-
Receivables:									
Other	72,037	191,774	-	644	-	-	-	-	-
Due from component units	-	-	-	-	155,000	-	-	-	-
Due from other governments	532,064	82,611	-	-	-	187,681	-	-	-
Other assets	-	-	-	-	213	-	-	-	-
Total assets	\$ 1,551,309	\$ 274,385	\$ -	\$ 12,315	\$ 155,384	\$ 335,040	\$ 5,872	\$ -	\$ 189,803
Liabilities and fund balances									
Liabilities:									
Accounts payable	\$ 84,243	\$ 56,202	\$ -	\$ 27	\$ -	\$ 23,252	\$ 5,074	\$ -	\$ 2,242
Accrued liabilities	5,110	111	-	-	-	21,980	-	-	-
Retainage payable	1,420	-	-	-	-	-	-	-	-
Due to other governments	27,951	44	-	-	-	-	-	-	-
Due to other funds	51,157	112,465	-	736	30,000	248,459	-	-	-
Deferred revenue	26,019	71,754	-	644	-	-	-	-	-
Total liabilities	195,900	240,576	-	1,407	30,000	293,691	5,074	-	2,242
Fund balances:									
Reserved for:									
Encumbrances	117,589	1,415	-	-	-	1,372	-	-	-
Unreserved:									
Designated	799,894	32,394	-	-	-	39,977	-	-	187,561
Undesignated	437,926	-	-	10,908	125,384	-	798	-	-
Total fund balances	1,355,409	33,809	-	10,908	125,384	41,349	798	-	187,561
Total liabilities and fund balances	\$ 1,551,309	\$ 274,385	\$ -	\$ 12,315	\$ 155,384	\$ 335,040	\$ 5,872	\$ -	\$ 189,803

CITY OF LYNCHBURG, VIRGINIA

EXHIBIT B-1

PAGE 2

Combining Balance Sheet
Nonmajor Special Revenue Funds
June 30, 2004

	Lynchburg Expressway Appearance	Compre- hensive Service Act	E-911	Home Investment Trust	Partners In Emergency Response	Technology	City Stadium	Total Nonmajor Special Revenue
Assets								
Cash and cash equivalents	\$ 12,475	\$ -	\$ 1,326,405	\$ 17,064	\$ -	\$ 886,089	\$ 109,827	\$ 3,653,944
Cash and cash equivalents - restricted	-	-	-	-	-	-	162	162
Receivables:								
Other	-	-	85,690	-	-	-	406,214	756,359
Due from component units	-	-	-	-	-	-	-	155,000
Due from other governments	-	1,291,100	-	-	-	-	-	2,093,456
Other assets	-	5,506	-	-	-	-	-	5,719
Total assets	\$ 12,475	\$ 1,296,606	\$ 1,412,095	\$ 17,064	\$ -	\$ 886,089	\$ 516,203	\$ 6,664,640
Liabilities and fund balances								
Liabilities:								
Accounts payable	\$ 6,829	\$ 539,852	\$ 79,555	\$ 28,945	\$ -	\$ 13,547	\$ 8,893	\$ 848,661
Accrued liabilities	-	177	-	-	-	-	-	27,378
Retainage payable	-	-	-	-	-	-	-	1,420
Due to other governments	-	-	-	-	-	-	-	27,995
Due to other funds	-	1,120,320	41,200	-	-	-	-	1,604,337
Deferred revenue	-	-	-	-	-	-	-	98,417
Total liabilities	6,829	1,660,349	120,755	28,945	-	13,547	8,893	2,608,208
Fund balances:								
Reserved for:								
Encumbrances	2,377	-	16,493	2,120	-	7,250	5,845	154,461
Unreserved:								
Designated	-	-	165,826	-	-	-	-	1,225,652
Undesignated	3,269	(363,743)	1,109,021	(14,001)	-	865,292	501,465	2,676,319
Total fund balances	5,646	(363,743)	1,291,340	(11,881)	-	872,542	507,310	4,056,432
Total liabilities and fund balances	\$ 12,475	\$ 1,296,606	\$ 1,412,095	\$ 17,064	\$ -	\$ 886,089	\$ 516,203	\$ 6,664,640

CITY OF LYNCHBURG, VIRGINIA

EXHIBIT B-2

PAGE 1

Combining Statement of Revenues, Expenditures,
and Changes in Fund Balances
Nonmajor Special Revenue Funds
Year Ended June 30, 2004

	City Federal/State Aid Projects	Community Development Block Grant	Title XX Grant	Museum System	Lynchburg Business Development Centre	Detention Home	Law Library	Recycling Program	Forfeited Assets
Revenues									
Taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Intergovernmental	6,592,791	1,133,237	-	-	-	1,228,487	-	-	71,468
Revenue from use of money and property	901	-	-	-	28,883	-	-	-	631
Charges for services	209,892	29,217	-	9,208	-	1,461,143	62,143	-	-
Miscellaneous	92,597	109,725	-	254	-	52	-	-	-
Total revenues	6,896,181	1,272,179	-	9,462	28,883	2,689,682	62,143	-	72,099
Expenditures									
Current:									
General government	-	-	-	-	-	5,875	-	-	-
Judicial	827,974	-	-	-	-	-	-	-	2,580
Health and human services	865,225	-	-	-	-	-	-	-	-
Public safety	937,744	-	-	-	-	2,416,824	-	-	41,526
Public works	2,615	-	-	-	-	-	-	-	-
Community development	3,675,110	1,180,181	-	-	28,883	-	-	-	-
Cultural and recreational	-	-	-	12,322	-	-	38,826	-	-
Capital Outlay	63,625	-	-	-	-	-	-	-	-
Debt Service:									
Principal retirement	-	-	-	-	-	137,923	-	-	-
Interest payments	-	-	-	-	-	135,223	-	-	-
Total expenditures	6,372,293	1,180,181	-	12,322	28,883	2,695,845	38,826	-	44,106
Excess (deficiency) of revenues over expenditures	523,888	91,998	-	(2,860)	-	(6,163)	23,317	-	27,993
Other financing sources (uses)									
Transfers in	219,645	-	-	-	-	-	-	-	-
Transfers out	(655,709)	-	(10,547)	-	-	-	(26,150)	(73,150)	-
Total other financing sources (uses)	(436,064)	-	(10,547)	-	-	-	(26,150)	(73,150)	-
Net change in fund balances	87,824	91,998	(10,547)	(2,860)	-	(6,163)	(2,833)	(73,150)	27,993
Fund balance - beginning	1,267,585	(58,189)	10,547	13,768	125,384	47,512	3,631	73,150	159,568
Fund balance - ending	\$ 1,355,409	\$ 33,809	\$ -	\$ 10,908	\$ 125,384	\$ 41,349	\$ 798	\$ -	\$ 187,561

CITY OF LYNCHBURG, VIRGINIA

EXHIBIT B-2

PAGE 2

Combining Statement of Revenues, Expenditures,
and Changes in Fund Balances
Nonmajor Special Revenue Funds
Year Ended June 30, 2004

	Lynchburg Expressway Appearance	Compre- hensive Service Act	E-911	Home Investment Trust	Partners In Emergency Response	Technology	City Stadium	Total Nonmajor Special Revenue
Revenues								
Taxes	\$ -	\$ -	\$ 978,997	\$ -	\$ -	\$ -	\$ 27,209	\$ 1,006,206
Intergovernmental	-	3,325,978	-	527,671	-	-	-	12,879,632
Revenue from use of money and property	-	-	28,532	-	-	8,892	606,799	674,638
Charges for services	-	-	-	-	-	-	241,658	2,013,261
Miscellaneous	20,134	1,252,732	-	-	-	27,267	598,232	2,100,993
Total revenues	20,134	4,578,710	1,007,529	527,671	-	36,159	1,473,898	18,674,730
Expenditures								
Current:								
General government	-	-	-	-	-	164,367	-	170,242
Judicial	-	-	-	-	-	-	-	830,554
Health and human services	-	4,670,646	-	-	-	-	-	5,535,871
Public safety	-	-	555,060	-	-	-	-	3,951,154
Public works	24,450	-	-	-	-	-	-	27,065
Community development	-	-	-	527,689	-	-	-	5,411,863
Cultural and recreational	-	-	-	-	-	-	1,071,409	1,122,557
Capital Outlay	-	-	-	-	-	-	-	63,625
Debt Service:								
Principal retirement	-	-	330,085	-	-	-	40,610	508,618
Interest payments	-	-	182,491	-	-	-	101,080	418,794
Total expenditures	24,450	4,670,646	1,067,636	527,689	-	164,367	1,213,099	18,040,343
Excess (deficiency) of revenues over expenditures	(4,316)	(91,936)	(60,107)	(18)	-	(128,208)	260,799	634,387
Other financing sources (uses)								
Transfers in	-	124,134	-	-	-	615,599	246,511	1,205,889
Transfers out	-	-	(105,000)	-	(22,429)	(500,000)	-	(1,392,985)
Total other financing sources (uses)	-	124,134	(105,000)	-	(22,429)	115,599	246,511	(187,096)
Net change in fund balances	(4,316)	32,198	(165,107)	(18)	(22,429)	(12,609)	507,310	447,291
Fund balance - beginning	9,962	(395,941)	1,456,447	(11,863)	22,429	885,151	-	3,609,141
Fund balance - ending	\$ 5,646	\$ (363,743)	\$ 1,291,340	\$ (11,881)	\$ -	\$ 872,542	\$ 507,310	\$ 4,056,432

Combining Balance Sheet
Nonmajor Capital Projects Funds
June 30, 2004

	City Capital Projects	Highway Projects Grant	School Capital Projects	Total Nonmajor Capital Project
Assets				
Cash and cash equivalents	\$ 3,672,159	\$ 4,275	\$ 508,488	\$ 4,184,922
Cash and cash equivalents - restricted	5,271,066	-	7,720,374	12,991,440
Receivables:				
Other	-	-	1,830	1,830
Total assets	\$ 8,943,225	\$ 4,275	\$ 8,230,692	\$ 17,178,192
Liabilities and fund balances				
Liabilities:				
Accounts payable	\$ 1,024,747	\$ -	\$ 520,784	\$ 1,545,531
Retainage payable	222,449	-	417,490	639,939
Total current liabilities	1,247,196	-	938,274	2,185,470
Fund balances:				
Reserved for:				
Encumbrances	2,058,840	11,938	12,191,510	14,262,288
Unreserved:				
Designated	386,088	-	-	386,088
Undesignated	5,251,101	(7,663)	(4,899,092)	344,346
Total fund balances	7,696,029	4,275	7,292,418	14,992,722
Total liabilities and fund balances	\$ 8,943,225	\$ 4,275	\$ 8,230,692	\$ 17,178,192

Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Nonmajor Capital Projects Funds
Year Ended June 30, 2004

	City Capital Projects	Highway Projects Grant	School Capital Projects	Total Nonmajor Capital Project
Revenues				
Intergovernmental	\$ 1,010,957	\$ 86,233	\$ 1,318,024	\$ 2,415,214
Revenue from use of money and property	-	-	1,000	1,000
Miscellaneous	357,972	-	-	357,972
Total revenues	1,368,929	86,233	1,319,024	2,774,186
Expenditures				
Capital Outlay	12,843,898	123,068	12,320,329	25,287,295
Debt service:				
Principal retirement	-	610,000	-	610,000
Interest payments	57,512	13,725	78,699	149,936
Total expenditures	12,901,410	746,793	12,399,028	26,047,231
Deficiency of revenues over expenditures	(11,532,481)	(660,560)	(11,080,004)	(23,273,045)
Other financing sources				
Proceeds from debt issues	10,487,539	-	17,684,244	28,171,783
Transfers in	4,694,062	30,000	-	4,724,062
Transfers out	(86,458)	-	-	(86,458)
Total other financing sources	15,095,143	30,000	17,684,244	32,809,387
Net change in fund balances	3,562,662	(630,560)	6,604,240	9,536,342
Fund balance - beginning	4,133,367	634,835	688,178	5,456,380
Fund balance - ending	\$ 7,696,029	\$ 4,275	\$ 7,292,418	\$ 14,992,722

Combining Statement of Fiduciary Net Assets
Agency Funds
June 30, 2004

	Special Welfare	Central Virginia Regional Radio Board	Total Agency
Assets			
Cash and cash equivalents	<u>\$ 59,968</u>	<u>\$ 1,673,338</u>	<u>\$ 1,733,306</u>
Liabilities			
Amounts held for others	<u>59,968</u>	<u>1,673,338</u>	<u>1,733,306</u>
Net Assets	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>

Combining Statement of Changes in Fiduciary Assets and Liabilities
Agency Funds
June 30, 2004

	<u>Balance July 1, 2003</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance June 30, 2004</u>
<u>Special Welfare</u>				
Assets				
Cash and cash equivalents	<u>\$ 70,617</u>	<u>\$ 249,776</u>	<u>\$ 260,425</u>	<u>\$ 59,968</u>
Liabilities				
Amounts held for others	<u>\$ 70,617</u>	<u>\$ 377,565</u>	<u>\$ 388,214</u>	<u>\$ 59,968</u>
 <u>Central Virginia Regional Radio Board</u>				
Assets				
Cash and cash equivalents	<u>\$ 1,588,806</u>	<u>\$ 3,778,130</u>	<u>\$ 3,693,598</u>	<u>\$ 1,673,338</u>
Liabilities				
Amounts held for others	<u>\$ 1,588,806</u>	<u>\$ 1,682,045</u>	<u>\$ 1,597,513</u>	<u>\$ 1,673,338</u>
 <u>Total All Agency Funds</u>				
Assets				
Cash and cash equivalents	<u>\$ 1,659,423</u>	<u>\$ 4,027,906</u>	<u>\$ 3,954,023</u>	<u>\$ 1,733,306</u>
Liabilities				
Amounts held for others	<u>\$ 1,659,423</u>	<u>\$ 2,059,610</u>	<u>\$ 1,985,727</u>	<u>\$ 1,733,306</u>

CITY OF LYNCHBURG, VIRGINIA

Discretely Presented Component Unit – Lynchburg City Schools
As of June 30, 2004

Discretely Presented Component Unit – Lynchburg City Schools:

The Lynchburg City Schools operate the ten elementary, the three middle, and the two high schools in the City. The funds and account groups of the schools are described below:

- School Operating Fund – Accounts for the primary operating activities of the Lynchburg City Schools.
- School Federal Aid Projects Fund – Accounts for the various federal and state grants for the educational purposes of the Lynchburg City Schools. Also accounts for the activities of the Central Virginia Governor’s School for Science and Technology, a regional program supported by the City of Lynchburg and four surrounding counties, for which Lynchburg City Schools serve as fiscal agent.
- School Cafeteria Fund – Accounts for revenues received from the sale of food in the Lynchburg City Schools.
- Permanent Fund – Accounts for funds invested with the Greater Lynchburg Community Trust for the support of education.

Discretely Presented Component Unit - Lynchburg City Schools

Combining Balance Sheet

June 30, 2004

	<u>School Operating</u>	<u>School Federal Aid</u>	<u>School Cafeteria</u>	<u>Total Government</u>
Assets				
Cash and cash equivalents	\$ 10,750,158	\$ (497,387)	\$ 572,724	\$ 10,825,495
Receivables, net	108,472	-	-	108,472
Due from other governments	978,557	1,368,897	-	2,347,454
Inventory	-	-	80,461	80,461
Total assets	<u>\$ 11,837,187</u>	<u>\$ 871,510</u>	<u>\$ 653,185</u>	<u>\$ 13,361,882</u>
Liabilities and fund balances				
Liabilities:				
Accounts payable	\$ 478,902	\$ 70,772	\$ -	\$ 549,674
Due to primary government	1,990,784	-	-	1,990,784
Accrued liabilities	8,369,874	672,689	7,036	9,049,599
Total liabilities	<u>10,839,560</u>	<u>743,461</u>	<u>7,036</u>	<u>11,590,057</u>
Fund balances:				
Reserved for:				
Encumbrances	45,907	-	-	45,907
Inventory	-	-	80,461	80,461
Unreserved:				
Designated for health insurance	8,281	-	-	8,281
Undesignated	943,439	128,049	565,688	1,637,176
Total fund balances	<u>997,627</u>	<u>128,049</u>	<u>646,149</u>	<u>1,771,825</u>
Total liabilities and fund balances	<u>\$ 11,837,187</u>	<u>\$ 871,510</u>	<u>\$ 653,185</u>	

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds

1,696,102

Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds

(1,857,899)

Net assets of governmental activities

\$ 1,610,028

Discretely Presented Component Unit - Lynchburg City Schools
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Year Ended June 30, 2004

	<u>School Operating</u>	<u>School Federal Aid</u>	<u>School Cafeteria</u>	<u>Total Governmental</u>
Revenues				
Intergovernmental	\$ 63,603,079	\$ 6,268,981	\$ 1,655,053	\$ 71,527,113
Revenue from use of money and property	1,643	-	401	2,044
Charges for services	386,744	434,916	824,872	1,646,532
Miscellaneous	203,831	159,870	6,393	370,094
	<u>64,195,297</u>	<u>6,863,767</u>	<u>2,486,719</u>	<u>73,545,783</u>
Expenditures				
Education:				
Instruction	49,693,140	5,127,354	-	54,820,494
Administration, attendance and health	2,062,680	41,600	-	2,104,280
Pupil transportation services	3,001,085	-	-	3,001,085
Operations and maintenance	7,575,110	189,581	2,295,269	10,059,960
Facilities	858,962	102,700	-	961,662
Capital outlay	1,471,364	1,219,550	31,928	2,722,842
Debt service:				
Principal retirement	737,511	22,446	-	759,957
Interest payments	58,727	14,654	-	73,381
	<u>65,458,579</u>	<u>6,717,885</u>	<u>2,327,197</u>	<u>74,503,661</u>
Excess (deficiency) of revenues over expenditures	<u>(1,263,282)</u>	<u>145,882</u>	<u>159,522</u>	<u>(957,878)</u>
Fund balance - beginning, as restated	<u>2,260,909</u>	<u>(17,833)</u>	<u>486,627</u>	
Fund balance - ending	<u>\$ 997,627</u>	<u>\$ 128,049</u>	<u>\$ 646,149</u>	

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation expense exceeded capital outlay. (129,178)

Laurel Program tuition was recognized as an expenditure when paid in the fund statements, and as an expense in the current year on the accrual basis in the Statement of Activities. (1,000,000)

Compensated absences are not due and payable at June 30, and therefore are not reported in the fund statements. (68,078)

The repayment of the principal of long-term debt consumes the current financial resources of governmental funds. However this has no effect on net assets. 737,511

Change in net assets of governmental activities. \$ (1,417,623)

Discretely Presented Component Unit - Lynchburg City Schools
School Operating Fund
Schedule of Revenues, Expenditures, and Other Financing Sources (Uses)
Budget and Actual
Year Ended June 30, 2004

	Budgeted Amounts			Variance Positive (Negative)
	Original	Final	Actual	
Revenues				
Intergovernmental	\$ 65,253,777	\$ 65,253,777	\$ 65,593,863	\$ 340,086
Revenue from use of money and property	-	-	1,643	1,643
Charges for services	440,500	440,500	386,744	(53,756)
Miscellaneous	209,500	209,500	203,831	(5,669)
Total revenues	65,903,777	65,903,777	66,186,081	282,304
Expenditures				
Education:				
Instruction	52,080,920	51,954,416	49,693,140	2,261,276
Administration, attendance and health	1,916,270	1,916,270	2,062,680	(146,410)
Pupil transportation services	3,024,189	3,024,189	3,001,085	23,104
Operations and maintenance	6,762,353	6,888,857	7,575,110	(686,253)
Facilities	843,024	843,024	858,962	(15,938)
Capital outlay	297,231	1,537,726	1,471,364	66,362
Debt service	979,790	979,790	796,238	183,552
Total expenditures	65,903,777	67,144,272	65,458,579	1,685,693
Excess of revenues over expenditures	\$ -	\$ (1,240,495)	727,502	\$ 1,967,997
Less return of funds to the City			(1,990,784)	
			\$ (1,263,282)	

Discretely Presented Component Unit - Lynchburg City Schools
Agency Fund
Year Ended June 30, 2004

	<u>Agency Fund</u>
Assets	
Investments	<u>\$ 89,029</u>
Liabilities	
Amounts held for others	<u>\$ 89,029</u>

Combining Statement of Net Assets
Other Component Units
June 30, 2004

	Component Units		
	Business Development Centre, Inc.	Greater Lynchburg Transit Company	Total
Assets			
Current assets:			
Cash and cash equivalents	\$ 587,862	\$ 51,062	\$ 638,924
Receivables (net of allowance for uncollectibles)	627,090	38,017	665,107
Due from other governments	-	230,335	230,335
Prepaid and other assets	-	48,167	48,167
Inventory	-	107,103	107,103
Capital assets:			
Non-depreciable	-	55,031	55,031
Depreciable	3,920	4,228,307	4,232,227
Total assets	1,218,872	4,758,022	5,976,894
Liabilities			
Accounts payable and other current liabilities	741,490	97,389	838,879
Notes payable, bank	-	250,000	250,000
Due to primary government	155,000	48,972	203,972
Total liabilities	896,490	396,361	1,292,851
Net assets			
Invested in capital assets, net of related debt	-	4,283,338	4,283,338
Restricted net assets	14,382	-	14,382
Net assets, unrestricted	308,000	78,323	386,323
Total net assets	\$ 322,382	\$ 4,361,661	\$ 4,684,043

Combining Statement of Revenues, Expenses, and Changes in Fund Net Assets
Other Component Units
Year Ended June 30, 2004

	Component Units		
	Business Development Centre, Inc.	Greater Lynchburg Transit Company	Total
Operating revenues			
Charges for services and other operating revenues	\$ 322,678	\$ 844,601	\$ 1,167,279
Miscellaneous	115	82,321	82,436
Total operating revenues	322,793	926,922	1,249,715
Operating expenses			
Operations	346,016	1,978,871	2,324,887
Administration	6,983	878,370	885,353
Maintenance and repairs	26,518	737,843	764,361
Total operating expenses	379,517	3,595,084	3,974,601
Operating loss	(56,724)	(2,668,162)	(2,724,886)
Nonoperating revenue (expense)			
Operating funds from City of Lynchburg	-	615,290	615,290
Operating funds from Counties	-	16,785	16,785
Donations and grants	127,436	2,036,087	2,163,523
Experimental grant expenses	-	(60)	(60)
Gain on sale of property and equipment	-	2,604	2,604
Depreciation	(280)	(899,973)	(900,253)
Total nonoperating revenue (expense)	127,156	1,770,733	1,897,889
Capital contributions	-	142,570	142,570
Change in net assets	70,432	(754,859)	(684,427)
Total net assets - beginning	251,950	5,116,520	5,368,470
Total net assets - ending	\$ 322,382	\$ 4,361,661	\$ 4,684,043

Combining Statement of Cash Flows
Other Component Units
Year Ended June 30, 2004

	Business Development Centre, Inc.	Greater Lynchburg Transit Company	Total
Operating activities			
Cash received from operations	\$ 585,690	\$ 875,251	\$ 1,460,941
Cash paid to employees and suppliers	(419,892)	(3,628,595)	(4,048,487)
Cash paid for interest	(4,263)	-	(4,263)
New loans disbursed	(78,500)	-	(78,500)
Net cash used in operating activities	83,035	(2,753,344)	(2,670,309)
Noncapital financing activities			
Subsidies	-	2,700,544	2,700,544
Operating grants and contributions	127,436	-	127,436
Net cash provided from noncapital financing activities	127,436	2,700,544	2,827,980
Capital and related financing activities			
Capital contributions	-	148,673	148,673
Additions to capital assets	(4,200)	(144,642)	(148,842)
Proceeds from sale of capital assets	-	2,604	2,604
Proceeds from bank	-	-	-
Experimental grant and other expenses	-	(60)	(60)
Net cash provided from (used in) capital and related financing activities	(4,200)	6,575	2,375
Net increase (decrease) in cash and cash equivalents/investments	206,271	(46,225)	160,046
Cash and cash equivalents/investments			
Beginning of year	381,591	97,287	478,878
End of year	\$ 587,862	\$ 51,062	\$ 638,924
RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES:			
Operating loss	\$ (57,004)	\$ (2,668,162)	\$ (2,725,166)
Adjustments to reconcile operating loss to net cash used in operating activities:			
Depreciation	280	18	298
(Increase) decrease in receivables	145,662	(51,671)	93,991
Increase in prepaid expenses and other assets	-	(21,263)	(21,263)
Decrease in accounts payable and other current liabilities	(9,278)	(12,266)	(21,544)
Increase in amounts due to primary government	3,375	-	3,375
Total adjustments	140,039	(85,182)	54,857
Net cash provided by (used in) operating activities	\$ 83,035	\$ (2,753,344)	\$ (2,670,309)

SUPPLEMENTAL SCHEDULES

CITY OF LYNCHBURG, VIRGINIA**SCHEDULE 1****Computation of Legal Debt Margin
Year Ended June 30, 2004**

Total assessed value of real estate	<u>\$ 3,302,404,927</u>
Legal Debt Limit - 10% of total assessed value of real estate	330,240,493
Less bonded debt as of June 30, 2004	<u>(167,313,328)</u>
Legal debt margin	<u>\$ 162,927,165</u>

CITY OF LYNCHBURG, VIRGINIA

SCHEDULE 2

Schedule of Expenditures of Federal Awards
Year Ended June 30, 2004

Federal Granting Agency/ Recipient State Agency/ Grant Program	Federal CFDA Number	Federal Expenditures
PRIMARY GOVERNMENT		
DEPARTMENT OF AGRICULTURE		
Passed through Commonwealth of Virginia:		
Department of Juvenile Justice:		
School Breakfast Program	10.553	\$ 75,214
Department of Social Services:		
Food Stamp Administration	10.561	778,829
DEPARTMENT OF HEALTH AND HUMAN SERVICES		
Passed through Commonwealth of Virginia:		
Department of Social Services:		
Family Preservation and Support	93.556	712,335
TANF Block Grant	93.558	1,027,244
Refugee and Entrant Assistance State - Administered Programs	93.566	1,379
Low Income Energy Assistance	93.568	49,600
Child Care Assistance	93.575	718,982
Child Care Development Fund	93.596	359,759
Chafee Education and Training Vouchers Program (ETV)	93.599	5,252
Adoption Incentive Program	93.603	1,078
Foster Care - Title IV-E	93.658	1,635,999
Adoption Assistance	93.659	377,676
Social Services Block Grant	93.667	693,759
Child Abuse and Neglect State Grants	93.669	262
Independent Living	93.674	105,512
Medicaid Assistance	93.778	594,455
Fraud Free Program	93.775	18,445
DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT		
Direct Payments:		
Community Development Block Grant Program, Entitlement Grants	14.218	1,180,182
Shelter Plus Care	14.238	29,475
Home Investment Partnership Program	14.239	527,689
Brownfield Economic Development Initiative	14.246	556,047
Community Development Block Grant Program, Section 108 Loan Guarantees	14.248	2,270,000
Lead Hazard Control	14.900	789,147
DEPARTMENT OF JUSTICE		
Direct Payments:		
Local Law Enforcement Block Grant Program	16.592	79,955
Domestic Violence Block Grant	16.530	130,342
Bulletproof Vest Partnership	16.607	20,311
Community Prosecution and Project Safe Neighborhoods	16.609	123,837
Passed through Commonwealth of Virginia:		
Department of Criminal Justice Services:		
Juvenile Accountability Incentive Block Grant	16.523	22,323
Victim-Witness Services	16.575	167,254
Byrne Formula Grant - Drug Control and Systems Improvements	16.579	83,724
Department of Motor Vehicles:		
Enforcing Underage Drinking Laws Program	16.727	34,526
FEDERAL AVIATION ADMINISTRATION		
Direct Payments:		
Department of Aviation:		
Airport Improvement Program	20.106	1,830,848
DEPARTMENT OF TRANSPORTATION		
Direct Payments:		
Small Community Air Service Development Pilot Program	20.930	479,924
Passed through Commonwealth of Virginia:		
Department of Motor Vehicles:		
Alcohol Impaired Driving Grants	20.600	17,153
Department of Conservation and Recreation:		
Recreational Trails Program	20.219	50,900

(Continued)

CITY OF LYNCHBURG, VIRGINIA

SCHEDULE 2

Schedule of Expenditures of Federal Awards
Year Ended June 30, 2004

Federal Granting Agency/ Recipient State Agency/ Grant Program	Federal CFDA Number	Federal Expenditures
ENVIRONMENTAL PROTECTION AGENCY		
Passed through Commonwealth of Virginia:		
Virginia Resources Authority:		
Revolving Loan	66.458	1,419,185
EPA Grant	66.606	3,104,496
FEDERAL EMERGENCY MANAGEMENT AGENCY		
Passed through Commonwealth of Virginia:		
Department of Emergency Services:		
Emergency Management Preparedness Grants	83.552	52,018
Hurricane Isabel	83.534	17,400
<u>COMPONENT UNIT - LYNCHBURG SCHOOLS</u>		
DEPARTMENT OF AGRICULTURE		
Passed through Commonwealth of Virginia:		
Department of Education:		
National School Lunch Program	10.555	1,329,865
National School Breakfast Program	10.553	366,006
DEPARTMENT OF LABOR		
Passed through Region 2000 Workforce Investment Board:		
Workforce Investment Act	17.259	141,399
DEPARTMENT OF HEALTH AND HUMAN SERVICES		
Passed through Commonwealth of Virginia:		
Refugee and Entrant Assistance	93.576	2,562
DEPARTMENT OF EDUCATION		
Direct Payments:		
Medicaid	93.778	103,254
Passed through Commonwealth of Virginia:		
Title VIII Impact Aid	84.874	6,115
Adult Education State Grant Program	84.002	129,953
Title I - Educationally Deprived Children - LEA	84.010	3,071,905
Elementary and Secondary Education Act (ESEA):		
Title VI - Innovative Education Program Strategies	84.298	29,122
Title VI-B - Special Education	84.027	2,539,454
Special Education Preschool Grants	84.173	74,523
Technology Literacy Challenge Fund Grants	84.318	87,176
English Language Acquisition Grants	84.365	5,693
Title II - Part A Funds	84.367	481,954
Vocational Education:		
Basic Grants to States	84.048	240,167
Eisenhower Math and Science	84.281	58,661
Drug Free Schools and Communities	84.186	69,142
Even Start	84.213	176,535
FEDERAL COMMUNICATIONS COMMISSION		
Direct Payments:		
Communications Information and Assistance and Investigation of Complaints	32.001	10,302
Total Primary Government and Lynchburg City Schools		<u>\$ 29,066,304</u>

CITY OF LYNCHBURG, VIRGINIA

Notes to Schedule of Expenditures of Federal Awards
As of June 30, 2004

Note 1. Significant Accounting Policy

Basis of Accounting:

The accompanying schedule of federal awards is prepared on the modified accrual basis of accounting.

Note 2. Business Development Centre, Inc. – Revolving Loan Fund

The Centre administers the Economic Development Administration Special Economic Adjustment Assistance Revolving Loan Fund Program CFDA 11.307 (01-49-03245) on behalf of the City of Lynchburg. Loans under this program are subject to various restrictions as determined by the Economic Development Administration.

The Centre received the funds indicated as follows through the fiscal year ended June 30, 1998. No funds have been received since that date.

	<u>Federal</u>	<u>State</u>	<u>Local</u>
Amount received through June 30, 1993	\$ 45,000	\$ -	\$ 24,000
Amount received through June 30, 1994	127,836	-	33,612
Amount received through June 30, 1995	44,027	-	14,676
Amount received through June 30, 1996	108,201	-	36,067
Bad debt charge off for the year ended June 30, 1996	(3,005)	-	(1,002)
Amount received through June 30, 1997	10,268	-	3,423
Recapitalized from earnings for the year ended June 30, 1997	3,005	-	1,002
Amount received through June 30, 1998	<u>159,668</u>	<u>40,000</u>	<u>13,222</u>
	<u>\$ 495,000</u>	<u>\$ 40,000</u>	<u>\$ 125,000</u>

Note 3. Non-monetary Assistance

Non-monetary assistance is reported in the Schedule of Federal Awards at the fair market value of the food commodities.

CITY OF LYNCHBURG, VIRGINIA

Notes to Schedule of Expenditures of Federal Awards
As of June 30, 2004

Note 4. Subgrantees

The federal expenditures for the Community Development Block Grant and Home Investment Partnership programs include grants to subrecipients as follows:

<u>Subrecipient</u>	<u>Community Development Block Grant</u>	<u>Home Investment Partnership Act</u>
Alliance for Families and Children	\$ 27,107	\$ -
Camp Kum-Ba-Ya	23,320	-
Dance Theatre of Lynchburg	49,504	-
Jubilee Family Development Center	75,000	-
The Legacy Project, Inc.	15,635	-
Lynchburg Community Action Group	145,465	202,560
Lynchburg Neighborhood Development Foundation	-	218,133
Lynchburg Redevelopment & Housing Authority	309,619	-
Miriam's House	32,200	-
New Land Samaritan Inn	25,440	-
Rush Lifetime Homes	6,336	20,000
Seeds for Life Ministries Inc.	5,313	-
White Rock Hill Neighborhood	11,483	-
YWCA	24,567	-
	<u>\$ 750,989</u>	<u>\$ 440,693</u>

Note 5. Program Income

In accordance with terms of the Community Development Block Grant Program, program income totaling \$125,155 was used to reduce the amount of federal funds in conjunction with the program's objective.

Note 6. Virginia Revolving Loan Fund (CFDA 66.458)

At June 30, 2004, the City had an outstanding loan balance through the Virginia Revolving Loan Fund in the amount of \$59,152,392 which includes \$21,578,875 of federal funds.

CITY OF LYNCHBURG, VIRGINIA

SCHEDULE 3

Schedule of Passenger Facility Charges
As of June 30, 2004Passenger Facility Charges:

<u>Federal Agency/Program Name/Application Number</u>	<u>PFC Balance July 1, 2003</u>	<u>Adjustments</u>	<u>PFC Collected</u>	<u>Interest Earnings</u>	<u>Expenditures</u>	<u>PFC Balance July 30, 2004</u>
<u>FEDERAL AVIATION ADMINISTRATION</u>						
Passenger Facility Charges (95-01-C-00-LYH)	\$ 3,425	\$ -	\$ -	\$ -	\$ -	\$ 3,425
Passenger Facility Charges (00-02-C-00-LYH)	-	-	-	-	-	-
Passenger Facility Charges (01-03-C-00-LYH)	<u>85,211</u>	<u>-</u>	<u>218,519</u>	<u>1,255</u>	<u>270,973</u>	<u>34,012</u>
	<u>\$ 88,636</u>	<u>\$ -</u>	<u>\$ 218,519</u>	<u>\$ 1,255</u>	<u>\$ 270,973</u>	<u>\$ 37,437</u>

CITY OF LYNCHBURG, VIRGINIA**SCHEDULE 4**Schedule of Expenditures of Passenger Facility Charges
As of June 30, 2004

Expenditures of Passenger Facility Charges:

<u>Project</u>	<u>PFC Expenditures</u>
<u>Application 3 (01-03-C-00-LYH)</u>	
Local share reimbursement (non-AIP) PFC development and administrative costs	\$ 2,530
Local share reimbursement Miscellaneous projects	<u>268,443</u>
Total PFC Expenditures	<u>\$ 270,973</u>

The accompanying schedule of expenditures of passenger facility charges includes the passenger facility charge activity of the City, and is presented on the cash basis of accounting. Therefore, some amounts presented in these schedules may differ from amounts presented in, or used in preparation of, the basic financial statements.

STATISTICAL SECTION

REVENUES AND EXPENDITURES - GOVERNMENTAL FUND TYPES (1)
LAST TEN FISCAL YEARS
UNAUDITED

	2004	2003	2002	2001	2000	1999	1998	1997	1996	1995
REVENUES										
Taxes	\$ 86,781,006	\$ 81,766,514	\$ 79,972,330	\$ 78,904,476	\$ 75,261,807	\$ 74,095,046	\$ 71,723,052	\$ 68,536,138	\$ 66,590,865	\$ 64,458,307
Permits, privilege fees, and regulatory licenses	738,887	675,311	727,489	700,188	671,067	492,100	392,751	422,388	381,970	368,598
Fines and forfeitures	551,716	538,753	776,701	733,148	807,230	792,086	679,268	542,724	541,199	469,408
Revenue from use of money and property	1,475,213	1,072,095	1,665,929	3,158,285	3,220,342	2,867,567	4,169,157	3,279,838	4,166,660	3,959,943
Charges for services	10,353,721	7,244,302	8,337,517	9,197,558	8,764,207	7,327,759	6,922,784	5,903,462	5,065,382	6,005,661
Miscellaneous	3,496,143	5,910,893	3,850,868	4,611,545	4,332,684	5,288,900	3,612,468	4,288,390	2,991,055	3,427,712
Intergovernmental	114,117,857	110,151,013	78,195,680	80,597,660	71,186,815	68,904,310	65,489,879	57,242,760	56,438,450	57,187,029
Total	\$ 217,514,543	\$ 207,358,881	\$ 173,526,514	\$ 177,902,860	\$ 164,244,152	\$ 159,767,768	\$ 152,989,359	\$ 140,215,700	\$ 136,175,581	\$ 135,876,658
EXPENDITURES										
Current:										
General government	\$ 12,130,482	\$ 9,768,503	\$ 9,672,372	\$ 8,905,542	\$ 10,631,360	\$ 15,615,422	\$ 15,190,387	\$ 13,714,992	\$ 12,337,836	\$ 11,672,691
Judicial	4,134,506	3,699,569	3,320,619	3,405,999	2,949,446	2,193,554	4,042,190	3,817,561	3,642,604	3,494,647
Health and human services	26,853,682	19,875,121	18,983,650	17,597,486	16,922,265	16,490,727	14,523,258	12,610,992	11,028,195	11,281,555
Education	96,952,708	96,791,757	66,942,558	66,571,588	62,643,982	62,792,552	57,423,193	54,979,182	51,844,719	52,408,486
Public safety	33,129,964	25,190,491	27,962,985	27,278,757	26,389,286	19,882,774	18,133,322	15,174,649	13,898,705	13,437,225
Public works	10,650,924	13,931,541	12,196,578	13,277,646	16,584,960	15,836,081	10,952,078	11,248,768	10,604,467	10,094,336
Community development	8,514,631	4,820,850	6,408,775	8,253,511	6,720,815	4,331,174	9,134,304	3,778,269	6,229,159	3,932,177
Culture and recreational	7,549,794	3,929,095	1,717,189	1,668,327	1,621,449	1,343,898	2,897,439	2,664,054	2,389,584	2,251,237
Non-departmental	-	7,639,808	6,524,184	6,311,656	5,531,207	4,576,635	4,264,737	4,115,884	3,518,314	3,105,723
Capital outlay	28,073,762	14,041,043	20,122,650	19,751,542	21,990,347	10,536,446	18,957,497	23,891,963	14,653,905	13,906,578
Debt services	24,208,386	26,958,487	11,241,561	10,068,434	9,816,503	16,597,525	10,645,514	8,781,195	16,410,267	14,953,295
Total	\$ 252,198,839	\$ 226,646,265	\$ 185,093,121	\$ 183,090,488	\$ 181,801,620	\$ 170,196,788	\$ 166,163,919	\$ 154,777,509	\$ 146,557,755	\$ 140,537,950

(1) Includes the General Fund, Special Revenue Funds, Capital Project Funds, Lynchburg City Schools, and Business Development Centre, Inc. in fiscal years 1995-2001. Business Development Centre, Inc. not included in years subsequent to 2001.

(2) Debt service includes defeasement of bonds.

CITY OF LYNCHBURG, VIRGINIA

TABLE 2

ASSESSED VALUE OF TAXABLE PROPERTY (1)
LAST TEN FISCAL YEARS

UNAUDITED

Fiscal Year	Real Estate (2)	Personal Property (3)	Machinery and Tools (2)	Public Service Corporation		
				Real Estate	Personal Property	Total
2004	\$ 3,116,578,400	\$ 458,996,765	\$ 125,639,040	\$ 185,826,527	\$ 28,684,711	\$ 3,915,725,443
2003	\$ 2,822,449,135	\$ 449,743,493	\$ 117,085,047	\$ 187,708,383	\$ 27,292,958	\$ 3,604,279,016
2002	\$ 2,743,591,485	\$ 419,024,367	\$ 106,329,586	\$ 163,282,375	\$ 33,883,382	\$ 3,466,111,195
2001	\$ 2,497,468,075	\$ 438,964,042	\$ 133,509,096	\$ 146,514,485	\$ 33,989,577	\$ 3,250,445,275
2000	\$ 2,449,420,625	\$ 411,292,462	\$ 131,817,754	\$ 147,404,173	\$ 26,207,912	\$ 3,166,142,926
1999	\$ 2,339,246,125	\$ 395,509,615	\$ 118,823,544	\$ 135,417,968	\$ 24,248,606	\$ 3,013,245,858
1998	\$ 2,290,471,575	\$ 376,396,894	\$ 103,346,245	\$ 134,128,601	\$ 24,168,112	\$ 2,928,511,427
1997	\$ 2,113,157,950	\$ 366,471,487	\$ 96,942,132	\$ 123,404,848	\$ 23,396,712	\$ 2,723,373,129
1996	\$ 2,079,069,127	\$ 314,745,348	\$ 96,503,007	\$ 133,140,649	\$ 25,781,569	\$ 2,649,239,700
1995	\$ 1,973,986,950	\$ 279,223,725	\$ 86,801,359	\$ 121,692,285	\$ 23,288,398	\$ 2,484,992,717

(1) Assessed value is as of January 1 of the previous fiscal year.

(2) Real estate and machinery and tools are assessed at 100% of fair market value.

(3) Effective July 1, 1989, personal property is assessed at 100% of average trade-in value.

Personal property is assessed at 100% of fair market value.

Sources: Real Estate Assessor, and Commissioner of Revenue.

**PROPERTY TAX RATES - PER \$100 OF ASSESSED VALUATION
LAST TEN FISCAL YEARS**

UNAUDITED

Fiscal Year	Real Estate	Personal Property	Machinery and Tools
2004	\$ 1.11	\$ 3.30	\$ 3.00
2003	\$ 1.11	\$ 3.30	\$ 3.00
2002	\$ 1.11	\$ 3.30	\$ 3.00
2001	\$ 1.11	\$ 3.30	\$ 3.00
2000	\$ 1.11	\$ 3.30	\$ 3.00
1999	\$ 1.11	\$ 3.30	\$ 3.00
1998	\$ 1.11	\$ 3.30	\$ 3.00
1997	\$ 1.13	\$ 3.30	\$ 3.00
1996	\$ 1.16	\$ 3.30	\$ 3.00
1995	\$ 1.16	\$ 3.30	\$ 3.00

CITY OF LYNCHBURG, VIRGINIA

TABLE 4

PROPERTY TAX LEVIES AND COLLECTIONS
LAST TEN FISCAL YEARS

UNAUDITED

Fiscal Year	Total Tax Levy	Current Tax Collections (1)	Percent of Levy Collections	Delinquent Tax Collections (1)	Total Tax Collections	Percent of Total Tax Collections to Tax Levy	Outstanding Delinquent Taxes	Percent of Delinquent Taxes to Tax Levy
2004	\$ 54,001,611	\$ 52,095,333	96.47%	\$ 1,203,114	\$ 53,298,447	98.70%	\$ 3,190,683	5.91%
2003	\$ 50,077,075	\$ 48,306,161	96.46%	\$ 1,200,837	\$ 49,506,998	98.86%	\$ 3,553,917	7.10%
2002	\$ 48,710,267	\$ 47,306,624	97.12%	\$ 794,603	\$ 48,101,227	98.75%	\$ 3,632,947	7.46%
2001	\$ 46,042,884	\$ 44,634,425	96.94%	\$ 1,112,034	\$ 45,746,459	99.36%	\$ 3,045,029	6.61%
2000	\$ 44,505,082	\$ 43,175,341	97.01%	\$ 1,011,960	\$ 44,187,301	99.29%	\$ 2,909,747	6.54%
1999	\$ 42,273,206	\$ 40,935,842	96.84%	\$ 743,598	\$ 41,679,440	98.60%	\$ 2,937,350	6.95%
1998	\$ 41,219,739	\$ 39,793,041	96.54%	\$ 876,002	\$ 40,669,043	98.66%	\$ 4,716,070	11.44%
1997	\$ 38,255,319	\$ 37,215,109	97.28%	\$ 790,508	\$ 38,005,617	99.35%	\$ 4,165,375	10.89%
1996	\$ 37,424,590	\$ 36,491,353	97.51%	\$ 683,307	\$ 37,174,660	99.33%	\$ 3,915,673	10.46%
1995	\$ 35,657,992	\$ 34,867,332	97.78%	\$ 1,208,775	\$ 36,076,107	101.17%	\$ 3,624,462	10.16%

(1) Real property taxes are payable in four installments on or before November 15, January 15, March 15, and May 15 of the fiscal year. Personal property taxes are payable on or before November 15 if such property is titled within the City on or after January 1 of the tax year and before August 15 of the tax year. Taxes on personal property which are titled within the City after August 15 of the tax year are payable on or before February 15 of the following tax year. The tax levy and collections are exclusive of penalty and interest.

CITY OF LYNCHBURG, VIRGINIA

TABLE 5

**RATIO OF NET BONDED DEBT TO ASSESSED VALUE
AND NET BONDED DEBT PER CAPITA
LAST TEN FISCAL YEARS**

Fiscal Year	Population¹	Assessed Valuation (in thousands)	Gross Bonded Debt ²	Payable from Enterprise Revenues ²	Net Bonded Debt	Net Bonded Debt To Assessed Value	Net Bonded Debt Per Capita
2004	66,800	\$ 3,915,725	\$ 174,813,328	\$ 66,896,030	\$ 107,917,298	0.02756	\$ 1,616
2003	66,800	\$ 3,604,279	\$ 149,981,377	\$ 64,140,521	\$ 85,840,856	0.02382	\$ 1,285
2002	65,800	\$ 3,466,111	\$ 144,972,780	\$ 63,498,966	\$ 81,473,814	0.02351	\$ 1,238
2001	65,400	\$ 3,250,445	\$ 134,591,831	\$ 55,521,290	\$ 79,070,540	0.02433	\$ 1,209
2000	65,269	\$ 3,166,143	\$ 126,725,002	\$ 54,707,035	\$ 72,017,967	0.02275	\$ 1,103
1999	64,600	\$ 3,013,246	\$ 133,714,439	\$ 59,337,375	\$ 74,377,064	0.02468	\$ 1,151
1998	65,000	\$ 2,928,511	\$ 133,399,514	\$ 58,165,679	\$ 75,233,835	0.02569	\$ 1,157
1997	64,900	\$ 2,723,373	\$ 121,616,932	\$ 52,342,544	\$ 69,274,388	0.02544	\$ 1,067
1996	64,800	\$ 2,649,240	\$ 110,823,274	\$ 48,967,080	\$ 61,856,194	0.02335	\$ 955
1995	65,800	\$ 2,484,993	\$ 106,503,216	\$ 53,142,250	\$ 53,360,966	0.02147	\$ 811

Source: Director of Financial Services, City of Lynchburg, Virginia

- (1) 'All data from the Weldon Cooper Center for Public Service, University of Virginia, Charlottesville, Virginia; provisional estimates, 'except for 1990 & 2000, United States Bureau of the Census. Provisional estimate not yet available for 2004.
- (2) These figures do not include City of Lynchburg Public Utility Revenue Bonds.

CITY OF LYNCHBURG, VIRGINIA

TABLE 6

PRINCIPAL TAXPAYERS

June 30, 2004

UNAUDITED

Taxpayer	Type of Business	2004 Real Estate Assessed Valuation	2004 Total Assessed Valuation	Percentage of Total Assessed Valuation	2004 Total Tax Levy	Percentage of Total Tax Levy
Verizon Va. Inc	Utility	\$ 85,912,110	\$ 93,468,473	2.39%	\$ 1,059,291	1.96%
RR Donnelly Printing Co.	Periodical Publications Printing	19,500,000	46,441,709	1.19%	1,024,796	1.90%
Framatome Technologies Inc.	Nuclear Power Design & Fuel Fabrication	25,827,400	35,898,479	0.92%	692,353	1.28%
G E Financial Assurance	Life Insurance	30,031,500	38,947,294	0.99%	657,807	1.22%
AEP	Utility	41,778,662	50,109,632	1.28%	554,335	1.03%
River Ridge, Ltd.	Shopping Mall	37,776,100	38,115,914	0.97%	420,529	0.78%
Rock Tenn	Paperboard Manufacturing	3,095,700	13,557,512	0.35%	348,098	0.64%
Frito Lay, Inc.	Food Manufacturer	25,143,300	25,170,225	0.64%	279,979	0.52%
C. B. Fleet Company	Pharmaceuticals	10,111,000	14,536,889	0.37%	258,286	0.48%
Columbia Gas of Virginia, Inc.	Utility	13,464,739	22,737,383	0.58%	252,640	0.47%
Totals		\$ 292,640,511	\$ 378,983,510	9.68%	\$ 5,548,114	10.27%
Total Assessed Valuation: ¹		\$ 3,915,725,443				
Tax Levy: ¹						
Real Estate		\$ 34,999,139				
Railroads and Pipeline		136,820				
Public Service Corporations		1,926,767				
Personal Property		16,938,886				
Total Tax Levy:		\$ 54,001,612				

¹ Source: City of Lynchburg, Real Estate Assessor, and Commissioner of Revenue.

**PROPERTY VALUE, CONSTRUCTION, AND BANK DEPOSITS
LAST TEN FISCAL YEARS**

UNAUDITED

Fiscal Year	Property Value (1)				Commercial Construction (2)		Residential Construction (2)		Bank Deposits (3)*
	Commercial	Residential	Exemptions	Total	Number of Units	Value	Number of Units	Value	
2004	\$1,102,415,100	\$2,037,540,000	\$ 788,330,400	\$3,928,285,500	75	\$ 40,552,566	241	\$ 38,417,819	N/A
2003	\$ 949,931,950	\$1,874,979,135	\$ 667,648,300	\$3,492,559,385	178	\$ 96,401,733	978	\$ 59,119,994	\$ 1,507,000
2002	\$ 925,670,250	\$1,825,363,885	\$ 622,883,800	\$3,373,917,935	24	\$ 41,066,199	254	\$ 34,611,807	\$ 1,620,000
2001	\$ 864,892,200	\$1,640,119,075	\$ 594,324,850	\$3,099,336,125	21	\$ 18,684,568	128	\$ 19,402,235	\$ 1,492,613
2000	\$ 836,660,600	\$1,620,521,425	\$ 591,109,500	\$3,048,291,525	41	\$ 53,949,457	189	\$ 81,549,864	\$ 1,360,203
1999	\$ 782,851,250	\$1,564,690,825	\$ 561,037,850	\$2,908,579,925	90	\$ 40,883,124	862	\$ 42,939,788	\$ 1,359,876
1998	\$ 757,491,150	\$1,543,357,925	\$ 542,149,000	\$2,842,998,075	114	\$ 296,777,401	460	\$ 18,278,629	\$ 1,233,851
1997	\$ 718,413,000	\$1,403,375,350	\$ 536,254,400	\$2,658,042,750	159	\$ 50,479,893	602	\$ 17,375,955	\$ 785,306
1996	\$ 699,698,450	\$1,388,162,800	\$ 529,951,650	\$2,617,812,900	135	\$ 37,990,862	429	\$ 13,291,988	\$ 760,000
1995	\$ 681,951,050	\$1,300,962,750	\$ 511,324,030	\$2,494,237,830	133	\$ 203,134,725	416	\$ 50,346,306	\$ 754,123

* Amounts expressed in thousands.

Source:

(1) Real Estate Assessments Property Class Breakdown

(2) City of Lynchburg Building Inspection Department.

(3) FDIC www.fdic.gov

(4) In FY 2000 the City changed the way it issued construction permits to differentiate between new construction versus remodeling and additions. FY 2000 and FY 2001, only new construction is shown.

**RATIO OF ANNUAL DEBT SERVICE EXPENDITURES FOR GENERAL FUND BONDED DEBT TO TOTAL GENERAL FUND EXPENDITURES, TRANSFERS TO SCHOOL OPERATING FUND, AND RESERVE ALLOCATIONS.
LAST TEN FISCAL YEARS**

UNAUDITED

Fiscal Year	Principal	Interest ⁽¹⁾	Total Debt Service	Total General Fund Expenditures and Transfers ⁽²⁾	Ratio of Debt Service to Total General Fund Expenditures and Transfers ⁽³⁾
2004 ⁽⁸⁾	\$ 6,245,066	\$ 3,801,676	\$ 10,046,743	\$ 141,124,882	7%
2003 ⁽⁷⁾	\$ 6,810,819 ⁽⁴⁾	\$ 3,862,166	\$ 10,672,981	\$ 136,036,068	8%
2002	\$ 7,170,673	\$ 4,070,888	\$ 11,241,561	\$ 114,907,592	10%
2001	\$ 5,528,883	\$ 3,846,500	\$ 9,375,383	\$ 118,766,574	8%
2000	\$ 5,566,054	\$ 3,543,009	\$ 9,109,063	\$ 112,208,412	8%
1999	\$ 6,233,829	\$ 3,481,876	\$ 9,715,705	\$ 104,639,900	9%
1998	\$ 6,317,424	\$ 3,684,107	\$ 10,001,531	\$ 107,918,885	9%
1997	\$ 5,235,179	\$ 3,546,016	\$ 8,781,195	\$ 98,253,772	9%
1996 ⁽⁵⁾	\$ 6,347,441	\$ 3,404,227	\$ 9,751,668	\$ 97,292,266	10%
1995 ⁽⁶⁾	\$ 5,920,256	\$ 3,308,839	\$ 9,229,095	\$ 87,472,398	11%

⁽¹⁾ Excluding bond issuance and other costs.

⁽²⁾ Includes all General Fund expenditures, operating transfers out, and transfers to component units.

⁽³⁾ Per the City of Lynchburg's Financial Management Policies Adopted August 10, 1999, and reaffirmed on November 14, 2000.

Annual debt service expenditures for tax-supported debt should not exceed 10% of the following:
Total General Fund Expenditures plus (a) transfers to the School Operating Fund
and (b) Reserve Allocations.

⁽⁴⁾ Principal excludes pay-off of bond anticipation note in the amount of \$7,500,000, and refunded General Fund and School debt in the amount of \$8,747,533.

⁽⁵⁾ Principal payments exclude \$6,658,599 of school retirement incentive liability.

⁽⁶⁾ Principal payments exclude pay-off of bond anticipation note in the amount of \$5,725,000.

⁽⁷⁾ Debt service payments for General Fund and Schools for FY 2003 exclude refunded debt payments of \$7,821,520 and \$926,012 respectively.

⁽⁸⁾ Debt service payments for General Fund and Schools for FY 2004 exclude principal repayments made on the City's interim line of credit as follows:

	Principal	Interest	Total
General	\$ 2,605,000	\$ 2,745	\$ 2,607,745
Schools	\$ 9,599,000	\$ 55,876	\$ 9,654,876

**DEMOGRAPHIC STATISTICS
LAST TEN FISCAL YEARS**

UNAUDITED

Fiscal Year	Population (1)		Median Age (1)	Per Capita Income (3)	School Enrollment (4)		Unemployment Rate (3)
2004	65,269	(2)	35.1	N/A	8,782	(5)	N/A
2003	65,269	(2)	35.1	N/A	8,955		6.1
2002	65,269	(2)	35.1	\$ 25,422	9,064		6.2
2001	65,269	(2)	35.1	\$ 25,177	9,212		4.5
2000	65,269	(2)	35.1	\$ 24,579	9,296		2.1
1999	64,400	(2)	33.1	\$ 23,443	9,387		2.2
1998	65,200	(2)	33.1	\$ 22,451	9,515		2.7
1997	64,800	(2)	33.1	\$ 21,284	9,506		4.3
1996	65,800	(2)	33.1	\$ 21,434	9,476		3.8
1995	65,700	(2)	33.1	\$ 20,849	9,403		3.9

Source:

(1) United States Census-2000

(2) Weldon Cooper Center for Public Service, University of Virginia www.coopercenter.org

(3) Virginia Employment Commission (annual average) www.vaemploy.org/www.vec.virginia.gov

(4) City of Lynchburg School District

(5) City of Lynchburg School District Data Processing department as of June 11, 2004

MISCELLANEOUS STATISTICS

June 30, 2004

UNAUDITED

Date of Incorporation	1805
Date of Independent City Status	1852
Form of Government	Council-Manager
Number of employees (excluding police and fire):	
Classified	803
Exempt	243
Area in square miles	50.107 square miles
City of Lynchburg facilities and services:	
Miles of Streets	454.8
Number of street lights	10,200
Number of traffic signals	110
Culture and recreation:	
Community centers	7
Parks	16
Park acreage	835 ⁽¹⁾
Golf courses	0
Swimming pools	1
Tennis courts	40 ⁽²⁾
Gymnasiums	7
Fire protection:	
Number of stations	8
Number of fire personnel and officers	185
Number of calls answered	227 per month (est.) ⁽³⁾
Number of inspections conducted	1280
Police protection:	
Number of stations	1
Number of police personnel and officers	226
Number of patrol units	53
Number of law violations	
Physical arrests	6,449
Traffic violations	9,628
Parking violations	7,308
Number of EMS calls	12,197
Sewerage system:	
Miles of sanitary sewers	450
Miles of storm sewers	Not Mapped
Number of service connections	17,595
Daily average treatment in gallons	13 Million
Maximum daily average capacity of treatment plant in gallons	22 Million
Maximum daily capacity of treatment plant in gallons	44 Million
Water system:	
Miles of water mains	445.9
Number of service connections	21,341
Number of fire hydrants	2,451
Daily average consumption in gallons	11 Million
Maximum daily capacity of plant in gallons	26 Million
Education:	
Number of elementary schools	11
Number of elementary school instructors	355
Number of secondary schools	5
Number of secondary school instructors	365
Number of community colleges	1
Number of universities	4
Facilities and service not included in the reporting entity:	
Hospitals:	
Number of Hospitals	2
Number of patient beds	554

⁽¹⁾ Including Blackwater Creek Natural Area.⁽²⁾ 10 Locations with a total of 40 courts-including schools.⁽³⁾ Fire calls only, not EMS.⁽⁴⁾ For fiscal year 1999 (5,844 adults; 379 juveniles).

COMPLIANCE SECTION

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

To the Members of the City Council and City Manager
City of Lynchburg, Virginia

We have audited the basic financial statements of the City of Lynchburg, Virginia, as of and for the year ended June 30, 2004, and have issued our report thereon dated September 30, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and *Specifications for Audits of Counties, Cities and Towns*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia.

The City's financial statements include the discretely presented component units Greater Lynchburg Transit Company and the Business Development Centre. Our audit did not include the operations of these component units because these component units engaged other auditors to perform their audits.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as items 04-1, 04-2, 04-3, and 04-4.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable conditions described above to be material weaknesses. We also noted other matters involving the internal control over financial reporting, which we have reported to management of the City in a separate letter dated September 30, 2004.

Compliance

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements including certain provisions of the compliance matters described in the Summary of Compliance Matters, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards*, which are described in the accompanying schedule of findings and questioned costs as Items 04-7 and 04-8. Certain immaterial instances of noncompliance were also noted and communicated to management of the City separately.

This report is intended solely for the information of the audit committee, management, state and federal awarding agencies, and pass-through entities and City Council. It is not intended to be, and should not be, used by anyone other than these specified parties.

Brown, Edwards & Company, L.L.P.

CERTIFIED PUBLIC ACCOUNTANTS

Roanoke, Virginia
September 30, 2004

**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR
PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE
WITH OMB CIRCULAR A-133**

To the Members of the City Council and City Manager
City of Lynchburg, Virginia

Compliance

We have audited the compliance of the City of Lynchburg with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2004. The City's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

The City's financial statements include the operations of the Greater Lynchburg Transit Company, which received \$1,417,661 in federal awards which is not included in the schedule for the year ended June 30, 2004. Our audit, described below, did not include the operations of the Greater Lynchburg Transit Company because the component unit engaged other auditors to perform an audit in accordance with OMB Circular A-133.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City's compliance with those requirements.

In our opinion, the City complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2004. However, the results of our auditing procedures disclosed instances of noncompliance with these requirements, which are required to be reported in accordance with OMB Circular A-133, and which are described in the accompanying schedule of findings and questioned cost as Items 04-5 and 04-6.

Internal Control Over Compliance

The management of the City is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended for the information of the audit committee, management, federal awarding agencies and pass-through entities, and City Council. It is not intended to be, and should not be, used by anyone other than these specified parties.

Brown, Edwards & Company, L.L.P.

CERTIFIED PUBLIC ACCOUNTANTS

Roanoke, Virginia
September 30, 2004

**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO THE PASSENGER
FACILITY CHARGE PROGRAM AND ON INTERNAL CONTROLS OVER COMPLIANCE IN
ACCORDANCE WITH THE PASSENGER FACILITY CHARGE PROGRAM AUDIT GUIDE**

To the Members of the City Council and City Manager
City of Lynchburg, Virginia

Compliance

We have audited the compliance of the City of Lynchburg, Virginia with the compliance requirements described in the *Passenger Facility Charge Audit Guide for Public Agencies*, issued by the Federal Aviation Administration (Guide), for its passenger facility program for the year ended June 30, 2004. Compliance with the requirements of laws and regulations applicable to its passenger facility charge program is the responsibility of the City of Lynchburg, Virginia's management. Our responsibility is to express an opinion on the City of Lynchburg, Virginia's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the Guide. Those standards and the Guide require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on the passenger facility charge program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City's compliance with those requirements.

In our opinion, the City complied, in all material respects, with the requirements referred to above that are applicable to its passenger facility charge program for the year ended June 30, 2004.

Internal Control Over Compliance

The management of the City is responsible for establishing and maintaining effective internal control over compliance with requirements of laws and regulations applicable to the passenger facility charge program. In planning and performing our audit, we considered the City's internal control over compliance with requirements that could have a direct and material effect on the passenger facility charge program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with the Guide.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws and regulations that would be material in relation to the passenger facility charge program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information of the audit committee, management, the Federal Aviation Administration, and City Council. It is not intended to be, and should not be, used by anyone other than these specified parties.

Brown, Edwards & Company, L.L.P.

CERTIFIED PUBLIC ACCOUNTANTS

Roanoke, Virginia
September 30, 2004

**INDEPENDENT AUDITOR'S COMMENTS ON RESOLUTION
OF PRIOR YEAR AUDIT FINDINGS**

To the Members of the City Council and City Manager
City of Lynchburg, Virginia

We reviewed the prior year report during the course of this audit to determine if the City of Lynchburg, Virginia has implemented adequate corrective action with respect to previously reported audit findings. The prior year single audit disclosed the findings noted as 03-2, 03-3, and 03-4 in the Schedule of Findings and Questioned Costs. The findings noted as 03-2 and 03-4 in the Summary Schedule of Prior Audit Findings were corrected for the year ended June 30, 2004. However, the finding noted as 03-3 was not corrected or resolved for the year ended June 30, 2004.

Brown, Edwards & Company, L.L.P.

CERTIFIED PUBLIC ACCOUNTANTS

Roanoke, Virginia
September 30, 2004

CITY OF LYNCHBURG, VIRGINIA
SUMMARY OF COMPLIANCE MATTERS
June 30, 2004

As more fully described in the Report on Compliance and on Internal Control over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*, we performed tests of the City's compliance with certain provisions of the laws, regulations, contracts, and grants shown below.

STATE COMPLIANCE MATTERS

Code of Virginia

Budget and Appropriation Laws

Cash and Investment Laws

Conflicts of Interest Act

Local Retirement Systems

Debt Provisions

Procurement Laws

Uniform Disposition of Unclaimed Property Act

Personal Property Tax Relief Act

Enhanced E-911 Service Taxes

State Agency Requirements

Highway Maintenance Funds

Education

FEDERAL COMPLIANCE MATTERS

Compliance Supplement for Single Audits of State and Local Governments

Provisions and conditions of agreements related to federal programs selected for testing.

FEDERAL AVIATION ADMINISTRATION COMPLIANCE MATTERS

Passenger Facility Charge Audit Guide for Public Agencies

Requirements of laws and regulations required by the Federal Aviation Administration in relation to passenger facility charges.

CITY OF LYNCHBURG, VIRGINIA

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2004**

A. SUMMARY OF AUDIT RESULTS

1. The auditor's report expresses an **unqualified opinion** on the financial statements.
2. **Four reportable conditions** relating to the audit of the financial statements were reported in the Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*. These reportable conditions were determined to be material weaknesses.
3. **No instances of noncompliance** material to the financial statements were disclosed.
4. **No reportable conditions** relating to the audit of the major federal award programs were reported in the Report on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133.
5. The auditor's report on compliance for the major federal award programs expresses an **unqualified opinion**.
6. The audit disclosed **two audit findings relating to major programs**.
7. The programs tested as major programs are:

Name of Program	CFDA #
Title 1 – Educationally Deprived Children	84.010
No Child Left Behind Act	84.367
EPA Grant	66.606
TANF Block Grants	93.558
Foster Care – Title IV-E	93.658
Family Preservation and Support	93.556
Lead Hazard Control	14.900
National School Breakfast Program	10.553
National School Lunch Program	10.555
Revolving Loan	66.458
Airport Improvement Program	20.106
Food Stamp Administration	10.561
Small Community Air Service Development Pilot Program	20.930

8. The **threshold for** distinguishing Type A and B programs was **\$830,000**.
9. The City of Lynchburg was **not** determined to be a **low-risk auditee**.
10. Passenger Facility Charge Program:

- | | |
|---|---------------|
| a. Material weakness identified? | No |
| b. Reportable condition not considered to be a material weakness? | None reported |
| c. Noncompliance material to the passenger facility charge program? | No |
| d. Type of auditor's report on compliance for major programs. | Unqualified |
| e. Any audit findings disclosed. | No |

CITY OF LYNCHBURG, VIRGINIA

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2004**

B. FINDINGS – FINANCIAL STATEMENT AUDIT

REPORTABLE CONDITIONS

04-1: Accounts Payable

Condition:

We detected a material understatement of accounts payable, indicating controls over the completeness of recorded accounts payable are not adequate.

Recommendation:

Controls should be implemented to ensure that accounts payable recorded at year end are complete.

Management Response:

The current Accounts Payable process is decentralized and highly reliant on departments to follow prescribed deadlines for submission. For a near-term solution, the Department of Financial Services will conduct education/training sessions with appropriate City personnel regarding the importance of timely processing invoices and securing billings from vendors. Management believes this will improve both the timeliness of payments and the completeness of the accounts payable liability at fiscal year end. Further, for a long-term solution, an assessment of centralizing accounts payable will be undertaken and completed by the end of FY 2005.

04-2: School Board Capital Assets

Condition:

We detected a material overstatement of School Board capital assets, indicating controls over reconciliation of the detail records to the general ledger are not adequate.

Recommendation:

Procedures should be implemented to account for all School Board capital assets and reconcile those capital asset detail records to the general ledger.

Management Response:

In the process of recording assets to be in compliance with GASB 34, certain fixed asset balances were not adjusted at June 30, 2003. The adjustment has been recorded and Lynchburg School Board management will ensure that fixed asset records are maintained appropriately.

CITY OF LYNCHBURG, VIRGINIA

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2004**

B. FINDINGS – FINANCIAL STATEMENT AUDIT (Continued)

REPORTABLE CONDITIONS (Continued)

04-3: Ambulance Service Accounts Receivable

Condition:

Ambulance service charges are not billed timely and therefore are not recorded on the subsidiary ledger, resulting in material unrecorded accounts receivable. This requires an accrued revenue for receivables to be posted. This accrual was not recorded at June 30, 2003, and was materially overstated at June 30, 2004.

Recommendation:

Procedures should be implemented to ensure that ambulance service charges are billed timely.

Management Response:

The City has contracted with a third-party billing firm to accept ambulance transport data from the City's Fire and EMS Department to issue and collect billings for provided services from insurance companies, patients and other third-party payers. The contractual arrangement provides for timely billing and collection of ambulance service charges.

04-4: Valuation of Other Receivables

Condition:

We detected a material overstatement of other receivables, indicating controls over the valuation of other receivables are not adequate. The overvalued receivables were offset by deferred revenue in the fund statements, therefore the misstatement was at the government-wide level only.

Recommendation:

Procedures should be implemented to ensure that other receivables are reviewed periodically for collectibility and proper allowances are recorded.

Management Response:

A Write-Off Policy will be implemented on or before March 31, 2005 to ensure all miscellaneous accounts receivables are properly valued in the general ledger by ensuring uncollectible receivables are written off on a timely basis. Concurrently, in addition to the Write-Off policy, the Accounts Receivable Module of the City's financial system is being implemented FY 2005 replacing the manual process to bill and collect these Miscellaneous Accounts Receivables. This module will provide for properly aging receivables and be systematically alerted when they reach an uncollectible status.

CITY OF LYNCHBURG, VIRGINIA

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2004**

C. FINDINGS AND QUESTIONED COSTS - PASSENGER FACILITY CHARGE PROGRAM

None.

D. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAMS AUDIT

Major Federal Award Programs Compliance Findings

04-5: Submission of the Single Audit Reporting Package

Condition:

The Single Audit Reporting Package was not submitted to the appropriate organizations timely.

Recommendation:

Procedures should be implemented to ensure that the Single Audit Reporting Package is submitted to the appropriate organizations within nine months of year end.

Management Response:

Procedures have been issued to ensure timely submission of the Single Audit Reporting Package.

04-6: Temporary Assistance for Needy Families – CFDA 93.558

Condition:

Three replacement checks out of eight checks tested were issued without documentation of a Financial Maintenance Form or Affidavit for Stop Payment.

Recommendation:

Procedures should be implemented to ensure that the proper forms are completed and retained.

Management Response:

This was also a finding for FY 2003. The FY 2003 audit report was received in December 2003. Procedures for the TANF replacements checks were implemented in March 2004. By the time the new policy was implemented, errors had been made in FY 2004. Procedures have been implemented to ensure that proper forms are completed and retained.

CITY OF LYNCHBURG, VIRGINIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2004

E. FINDINGS AND QUESTIONED COSTS - COMMONWEALTH OF VIRGINIA

Commonwealth of Virginia Compliance Findings

04-7: Commonwealth of Virginia: Virginia Security for Public Deposits Act

Condition:

One cash deposit is not marked as public funds held in a qualified public depository.

Recommendation:

Procedures should be implemented to ensure that all public deposits are marked as public funds with a qualified public depository in accordance with the Virginia Security for Public Deposits Act.

Management Response:

As of September 14, 2004, this bank account had a designation of a public funds account at the bank.

04-8: Commonwealth of Virginia: Highway Maintenance Funding

Condition:

Maintenance was performed on four streets not eligible per the Virginia Department of Transportation's annual listing of eligible streets.

Recommendation:

Procedures should be implemented to ensure that maintenance funded by Highway Maintenance proceeds is performed on eligible streets.

Management Response:

Three of the four streets met the standards for eligibility and needed to be added to the eligible-streets inventory listing and must have City Council approval. A request for all three streets has been submitted for council approval to correct the problem. The fourth street does not meet the standards set forth by VDOT to be eligible for funds reimbursement. No work on this street can be or should have been claimed for reimbursement. Training for field-crew employees will be conducted describing Highway-Maintenance eligible work and the program's eligibility standards as well as describing the process of adding a street to the inventory list. Also, copies of the eligible streets inventory list will be made available to all involved (field crews and administrative employees) parties for verification of street-eligibility status.

CITY OF LYNCHBURG, VIRGINIA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2004

E. FINDINGS AND QUESTIONED COSTS - COMMONWEALTH OF VIRGINIA (Continued)

Commonwealth of Virginia Internal Control Findings (Continued)

04-9: Improper Use of Highway Maintenance Rates

Condition:

The highway maintenance costing system reflected incorrect rates for overhead and equipment usage.

Recommendation:

Procedures should be implemented to review the highway maintenance costing system to ensure that proper overhead and equipment usage rates are used.

Management Response:

Overhead Rates:

The Streets Division currently oversees the calculation of the overhead rates and the work-management system. Data-entry responsibilities for all divisions will be centralized to the Streets Division Work Planner which should improve the efficiency and accuracy of updating these rates.

Equipment Usage Rates:

An exact cause of the equipment-rate inaccuracy has not been determined. Two changes have been implemented that should improve the accuracy and timeliness of the data entry for these rates at the beginning of each fiscal year and will allow verification of all rates in the system more easily at any time. Equipment-usage rates are now entered only for each equipment class, rather than for each piece of equipment. These class costs are now related to the individual pieces and will consolidate the amount of data entry (approximately 60 rates versus 350 rates). The data-entry responsibilities for all divisions will be centralized to the Streets Division Work Planner. Each division will continue to be responsible for assigning class numbers to their pieces of equipment but usage rates will be assigned through the class table.

CITY OF LYNCHBURG, VIRGINIA
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
Year Ended June 30, 2004

Auditor
Reference No.

- 2003-2: Foster Care Title IV-E - CFDA 93.658
- Condition:*
- In 5 of the 25 cases tested for eligibility by the prior auditor, a judicial determination was not obtained.
- Current Status:*
- During June 30, 2004 major program compliance testing, this finding was not detected.*
- 2003-3: Temporary Assistance to Needy Families - CFDA 93.558
- Condition:*
- In 5 of the 12 disbursements tested by the prior auditor, a Temporary Assistance for Needy Families ("TANF") replacement check was issued without a Financial Management Form in the file.
- Current Status:*
- During June 30, 2004 major program control testing, this finding was still applicable, see finding 04-6.*
- 2003-4: Temporary Assistance to Needy Families - CFDA 93.558
- Condition:*
- Nine of the 12 disbursements tested by the prior auditor, representing local replacement checks, could not be traced to the monthly Local Reimbursement Report requesting reimbursement from the Department of Social Services.
- Current Status:*
- During June 30, 2004 major program control testing, this finding was not detected.*